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Welfare mix in Korea 1987-2002: Dynamics of environments, institutions and welfare politics

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Award date:
2004

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**WELFARE MIX IN KOREA 1987~2002:
DYNAMICS OF ENVIRONMENTS, INSTITUTIONS AND
WELFARE POLITICS**

Submitted by Jin Wook Kim

For Degree of PhD of the University of Bath

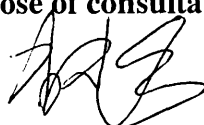
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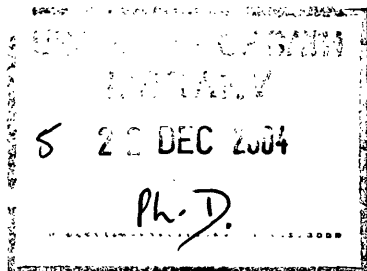
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Abstract

The research attempts to analyse welfare mix changes of Korea between 1987 and 2002, and to explain why such changes happened and through which processes. First of all, I have developed a welfare mix pentagon model, which consists of the state, market, enterprise, third and family sectors. Then, the research utilises the welfare mix approach as the dependent variable and analyses the welfare mix changes in Korea using the independent variables, i.e., transformations of external and internal environments, political institutions, and the institutional legacies of the welfare mix. The research, in this respect, can be understood as an attempt to build a theoretical bridge between the welfare mix approach and contemporary explanations of the development and adaptation of the welfare state.

The main findings and arguments of the research are that there were significant changes in the welfare mix structure during the research period and such changes in the welfare mix can be understood as the results of the intermediations between structural transformations and the dynamics of welfare politics. Whereas the structural factors relating to environments and domestic institutions provided the basic conditions, contexts and constraints for the welfare mix changes, the dynamics of welfare politics shape the actual forms and changes. Most of all, the research suggests that, whilst the impact of environmental transformations should not be overemphasised, the explanations privilege the importance of political and institutional variables. Political democratisation and social pact institutions have provided the fundamental preconditions for the operation of welfare politics. Politics mattered, not only in the development of the welfare state, but also in welfare mix changes. In spite of significant changes of the welfare mix, the research also argues that the welfare mix changes basically followed a path-dependent route, whereby the previous institutional legacies constrained and influenced the development of the welfare mix. Furthermore, the research has also discovered that the role of the state remained vital in managing the national responses to the transforming environments as well as the fact that the typical modes of state intervention in social welfare were strongly retained and represented within the welfare mix changes.

Acknowledgements

I am with you and will watch over you wherever you go, and I will bring you back to this land. I will not leave you until I have done what I have promised you.
[Genesis, 28:15]

This thesis would not have been possible without the help of many people. My greatest gratitude and respect must go to my supervisor, Professor Ian Gough. His excellent guidance and supervision throughout have proved invaluable, and I am thankful for his help and encouragement to continue at times during the research when I faced academic and personal difficulty. I will never forget his warm heart and superb scholarship. I also acknowledge and am thankful for the kind work of Professor Graham Room and Dr. Karen Rowlingson, and their helpful comments during panel meetings. I am also grateful to Professor Paul Wilding and Dr. Martin Powell for being examiners.

The British government and the University of Bath must also be thanked for their generous financial support. Their provision of a Chevening Scholarship, an Overseas Research Student Award and a University Research Studentship during my stay in Britain has enabled me to do this research without financial difficulty. I am very grateful to Professor Jin-Young Moon and Yeon-Myung Kim for interviews. Thanks to John, Anne and Tom Abbot for their warm hospitality, and also to Thomas Oliver for his help with proof reading. I have enjoyed discussions with my PhD colleagues – Sean, Amilcar, Jerick and Jacob. Special thanks to Young-Jun for his help and friendship. Professor Hye-Kyung Lee, my previous supervisor, and other professors at Yonsei – Professor Dong-Bae Kim, Ik-Sup Lee, Jae-Yeop Kim and Jae-Sung Choi – have always provided me a source of encouragement whenever I have met them.

I owe my parents for everything that I am. My mother was more pleased than anybody else when I passed the *viva voce*, even though she has been suffering from cerebral paralysis and aphasia. My father has fully supported me, in spite of mental and financial difficulties due to my mother's illness. So I dedicate this thesis to my parents. I also acknowledge and thank my parents-in-law for their prayers. Finally, I would like to express my deepest love to my wife and son. My son, Beom Jun, is the best present that God has allowed me. My wife, Eun Kyung, has always provided me with much more sacrifice and forbearance than I could ever imagine.

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CHAPTER 1. INTRODUCTION

1.1. The Welfare Mix Approach and the Originality of the Research

The research attempts to analyse the welfare mix changes of Korea between 1987 and 2002, and to explain why such changes happened. It is based on the welfare mix approach but seeks to overcome the limitations of contemporary welfare mix models. The welfare mix approach usually refers to the existence of various sources or sectors, beyond the welfare 'state', in welfare provision. However, the contemporary welfare mix models are either descriptive or normative, and most of them have failed, or have not sought, to provide an analytical framework to explain the dynamic nature of the welfare mix. So the research takes the independent variables – i.e., environments and institutions – that have been developed by the contemporary theories on the welfare state to explain its changes and dynamics, and adapts them to the welfare mix approach. Before mentioning the purposes of the research, let me start by raising some rationales why the welfare mix approach is taken in the research.

First, as the contemporary welfare mix approach emphasises (e.g., Rose, 1985a: 13-15; Johnson, 1999: 22), historically the devices of meeting human needs have neither been uniform nor monopolised by the state sector. The social welfare system, as an arrangement of institutions meeting welfare needs of people, has always been mixed in nature. Even when the welfare state emerges as the dominant welfare provider, non-state sectors like the market, the family and the third sector still play an important role in the overall provision of welfare. So if one is interested in the level of social welfare in a society, it proves insufficient to consider only the state sector. A good empirical example is the OECD's recent works on net social expenditures, which indicate the importance of the private sector when measuring welfare efforts (Adema, 2001). Generally, public social expenditures used to be identical to the overall welfare efforts of a society in

many comparative social policy studies. The level of welfare efforts have been indicated as an important factor when explaining the differences of welfare outcomes especially between the big welfare states in Scandinavia and welfare state laggards like the US. However, when the private social benefits are included in the measurement of welfare efforts, such differences between OECD nations are much decreased.

Second, the notion of a welfare 'state' does not seem to be suitable to understand the overall social welfare in the less developed and developing world where non-state sectors play more important roles in people's welfare. Despite some differences, most advanced economies have developed welfare state models which set a dominant role for the state in social welfare. However, such welfare state models basically reflect a Western-centred perspective on social welfare. In the less developed and developing world, the major sources of people's welfare are more diversified and the role of the state has been marginal or moderate in social welfare. Nonetheless, overwhelming research has been concentrated on state welfare rather than the overall welfare mix. In this respect, as Gough et al. (2004) suggest, the informal welfare regime must be identified alongside the welfare 'state' regime, it is necessary to widen the analytical scope to a wider welfare mix approach. This is exactly what the research attempts to do. In other words, the research sets the welfare mix as a dependent variable and seeks to explain its changes with independent variables which will be set by the research model.

Third, there is a theoretical need for conventional welfare state studies including the welfare regime approach to pay more attention to the welfare mix. The welfare mix forms one of the triangular pillars that constitute the welfare regime paradigm, alongside de-commodification (welfare outcome) and stratification effects. However, contemporary welfare regime studies not only lack systemic analysis of the overall welfare mix as key components of different welfare regimes, but also narrowly define the welfare mix with a private-public dichotomy (Esping-Andersen, 1990) or omit an important component of the welfare mix, e.g., the third sector, in the analysis (Esping-Andersen, 1999). Moreover, while Esping-Andersen stresses that the components of the welfare regime – the welfare mix, welfare outcomes and stratification effects – are associated and interact with one another, there is a lack of consideration of which one precedes the other. But, as Powell and Barrientos (2004: 85) indicate, 'the welfare mix is the basis upon which the welfare regime is built'. Logically, analysis of the structure of the welfare mix should be considered first when explaining the different welfare

outcomes of different welfare regimes. So, to develop a more sophisticated welfare regime model, more theoretical attention is required to build a straightforward causal relationship as to how different institutional legacies and political institutions form different welfare mix structures and, again, how different welfare mix structures produce different welfare outcomes.

On the other hand, the numerous recent theoretical products bridging the common challenging environments and the various responses of welfare states also seem to need to be supplemented by the welfare mix approach. Many have argued that the economic globalisation and/or post-industrialisation have eroded the basic conditions of the traditional welfare state models and have required welfare states restructuring but, at the same time, the impacts of such environmental factors have been various according to the mediation of national political institutions and various reforms of the welfare state have been reflected by the past institutional legacies of the very welfare state structures (Scharff, 2000; Mishra, 1999; Esping-Andersen, 1996; Pierson, 2001b; Garrett, 1998; Swank, 2002). However, have the policy changes resulting from the mediated effects of environments and political institutions influenced only state welfare? If the mediation of changing environments and political institutions has required a changing role for the state in social welfare, has it been accompanied with overall changes in the welfare mix including non-state sectors? To understand the influences of environments and institutions that current welfare state theorists have focused on in their analyses, the conventional theoretical frameworks need to widen in scope to incorporate a broader welfare mix model, and *vice versa*. Since the role of the state, not only as a direct provider but also a regulator and financier, is vital to the welfare mix structure, the impacts of such variables explaining the welfare state can be applied to non-state sectors, and finally the overall welfare mix structure in a society. If the welfare mix is dynamic, rather than static, welfare mix models should include those variables which explain the dynamics. This is what I attempt to do in the research.

The originality of the research can be clarified here. First of all, the research criticises the current welfare state theories that have narrowly fixed on the role of the state in social welfare and, instead, suggests utilising the welfare mix as the dependent variable. At the same time, it recognises that existing welfare mix models should be modified using the theoretical performances of the welfare state theories that have emphasised the influence of environments, institutions and politics. Therefore, the

research attempts to construct a theoretical bridge between contemporary welfare state theories whose primary concerns have not moved away from an exclusive fixation on the 'state' and the existing welfare mix approach, which itself remains either descriptive or normative. In this respect, it cannot provide an analytical tool for explaining the dynamic, changeable nature of the welfare mix.

1.2. Why Korea?

Ultimately, the research attempts to integrate conventional welfare state theories with the welfare mix approach, to explain the dynamics of the welfare mix in Korea. The research chooses the Korean case for its case study due to the interesting features of the Korean welfare mix. First, Korea is one of the best examples revealing the hybrid nature of the welfare mix. Strong familism has been maintained in social welfare with the region often being described as having a Confucian culture (Jones, 1993; Rieger and Leibfried, 2003). Korea and Japan have also developed a well-organised enterprise welfare system which has been frequently interpreted as a substitute for the state welfare and a typical feature of industrial relations (Y.H. Cho, 1996; K.J. Hong, 1999; C.J. Lee, 1997; H.K. Song, 1994, 1995; Shinkawa and Pempel, 1996). Although the mixed state of the welfare mix has been suggested as one of the most important features of the East Asian model (Esping-Andersen, 1997; Goodman and Peng, 1996; Goodman, White and Kwon, 1997; Jacobs, 2000), systematic research covering all components of the welfare mix is scarce.

Secondly, Korea has experienced rapid change in its socio-economic and political situation since the late 1980s. Such rapid changes seem suitable to use to adapt conventional welfare state theories, focusing on the impact of environmental factors and national political institutions, in the case of Korea, through analysis over a relatively short time period. The political democratisation since 1987 not only led to regime change – from authoritarian military regimes to a civilian government in 1993 and the first peaceful regime change through a democratic election in 1997, but has also

provided the basic conditions for working welfare politics. Departing from being a measure for securing political legitimacy, social welfare programmes have emerged as one of the critical fields through which different political economic factors have been interwoven and allowed to interact. At the same time, the Korean economy has been integrated more and more into the global economy, with the internal pressures such as de-industrialisation, ageing and family dissolution being raised to the surface. Would such rapid economic, social and political changes, as Johnson (1999: 264) expected, lead to significant welfare mix changes over a relatively short time-span?

Thirdly, unlike Japan and Taiwan, Korea experienced the financial crisis in 1997. Although the financial crisis revealed the devastating impact of economic globalisation on the Korean economy, it also provided an opportunity to reconsider Korea's developmental model and to launch major welfare reforms afterwards. Indeed, the financial crisis can be regarded as the second historical juncture following the political democratisation of 1987. Recent studies on the Korean welfare state point out that the role of the state has been greatly expanded in social welfare since the financial crisis of 1997/8 (H.K. Lee, 1999; H.J. Kwon, 2001, 2002; D.M. Shin, 2000). Coverage of all major social insurance programmes was universalised, new public assistance programmes were launched with reinforced state responsibility, and health reforms were finally implemented to unify hundreds of fragmented health insurance agencies and funds into a single nation-wide system. All the reforms, except the unification of health insurance funds, were concentrated within a short period of time between 1998 and 2000. In this respect, at least in terms of state welfare, the financial crisis seems a historic milestone. Is it therefore possible to evaluate the various impacts of the financial crisis on the welfare state in a similar way to earlier evaluations of the impact of the Great Depression and the Second World War on Western welfare states? If the state has expanded its role as a financer and direct provider in social welfare, then has it led to changes in the overall welfare mix structure and a movement towards the Western style welfare state? These questions relate directly to the final reason why the research selects the Korean case.

The Korean case clearly presents the relationship between the role of the state and non-state welfare. Traditionally the state in Korea has been analysed as a typical developmental state based on strong power and autonomy vis-à-vis civil society and business as well as labour. State intervention in social welfare was typically based upon

regulation, rather than direct provision (H.J. Kwon, 1997). As a matter of fact, the government not only stressed and supported the role of the family in social welfare, but has also prescribed mandatory enterprise welfare programmes through its labour laws and even introduced private individual pension programmes. Moreover, although its role had remained marginal in social welfare, the third sector has been the subject of higher regulation and supervision from government. These institutional features not only present the important relationship between the role of state and non-state welfare, but also raise a more interesting theoretical concern about the path dependent nature of the welfare mix – i.e., whether or not past institutional legacies could be and thus explain the trajectory of changes in the welfare mix. Indeed, has the expansion of state welfare since the financial crisis meant a changing role for the state in the welfare mix, from a regulatory role to a role as a direct provider? If so, has the increasing role of the state in social welfare driven out provision from non-state sectors? And, closely related to the role of the state in social welfare, has the direction of the welfare mix changes been isolated from the past welfare mix structure, or has it been significantly dependent on the institutional legacies of the welfare mix? These questions closely relate to the goal and objectives of the research.

1.3. Goal and Objectives of the Research

Based on an understanding of the necessity of the welfare mix approach as well as the suitability of the Korean case, the goal of the research is to analyse changes in the welfare mix in Korea between 1987 and 2002 and to explain its dynamics using three sets of independent variables. The research proposes a holistic approach that attempts to integrate both structure-centric and actor-based approaches to the explanation of welfare mix changes in Korea. The research will mostly focus on the structural factors that provide the basic conditions for welfare mix changes. External forces and internal pressures have required changes to or reform of the social welfare institutions. However it is too functionalistic to suppose that such grand environmental changes automatically

influence the specific direction of welfare reforms. Instead, as recent research from the new institutionalist school suggests (e.g., Garrett, 1998; Pierson, 2001b; Swank, 2002), it seems more important that the various features originated from different political institutions resulting in different contexts and constraints for the adaptation of the welfare state and, possibly, overall changes in the structure of the welfare mix. In this research, I shall also argue the importance of the structural and institutional features of political institutions (e.g. political democratisation and social pact politics) and the institutional legacies of welfare mix structure. Alongside structural and institutional factors, the research endeavours to not ignore the processes of welfare mix changes, i.e. welfare politics in which various interests of different political actors and related behaviours interact. Although the structural and institutional factors provide the conditions, contexts and constraints for welfare mix changes, the interaction and dynamics between different political actors significantly influence social policy processes.

To achieve the goal of the research, three specific objectives are defined. The first objective is to construct a research framework to analyse welfare mix changes using the independent variables of the research, namely environmental factors, political institutions and the institutional legacies of welfare mix structure. To do so, the research is largely based on theoretical works within the welfare mix literatures and the various impacts of globalisation, post-industrialisation and political institutions on the welfare state. The second objective is to investigate the development of and changes in the welfare mix structure in Korea. Although the main scope of the research is restricted to changes in the welfare mix between 1987 and 2002, it is necessary to briefly examine the development of the welfare mix structure until 1987 in order to extract its historical legacies. Ultimately, the research will demonstrate the path-dependent development of the welfare mix. The third objective of the research is to explain changes in the welfare mix and how institutions and environments influenced the welfare mix and through which processes. The political, institutional intermediation between structural changes and welfare mix changes will be analysed, and the importance of ‘politics’ will be also emphasised when considering welfare mix changes, not necessarily restricted to the area of the welfare ‘state’.

1.4. The Scope of the Research

The research seeks to analyse the welfare mix of Korea between 1987 and 2002. The fifteen year long time span of the research covers three regimes after the democratisation of 1987; the Roh Tae Woo (1988-1992), Kim Young Sam (1993-1997) and Kim Dae Jung (1998-2002) governments, although a brief investigation of the development of the welfare mix until 1987 will be conducted to provide a discussion on its historical legacies. Although seeming a relatively short time for presenting welfare mix changes, the research period covers both historical junctures – the political democratisation of 1987 and the financial crisis of 1997/8 – of modern Korean history since 1961 during which time political authoritarianism and a process of industrialisation were established. Most of all, 1987 was one of the greatest milestones in modern Korean history and Korea has experienced rapid political, economic and social change for the fifteen years since 1987. The political democratisation triggered by the democratisation movement of 1987 changed the basic conditions of political institutions, giving more room for political actors to participate in welfare politics and providing fertile soil for the growing civil society. Along with its fast growth until the mid 1990s, the Korean economy has been integrated into the global economy and, ultimately experienced a devastating financial crisis in 1997/8. In addition, long-term demographic and social pressures like de-industrialisation, population ageing and family dissolution have increased. The research attempts to explain how such rapid socio-economic and political-institutional changes have influenced the welfare mix structure and through which political processes during the last fifteen years. The scope of social welfare benefits and services that the research examines is outlined below.

The research frequently uses words such as ‘social welfare’ and ‘social protection and health’ as well as utilising the term ‘welfare mix’, instead of ‘social policy’. This is because ‘social policy’ usually refers solely to the domain of the public sector but this research incorporates the private sector. Nonetheless, it is necessary to examine the definition of social policy in order to set up the scope of the research. Empirically, the Social Policy Association classifies seven service-based components of social policy; income protection and social security; employment, health care, education, housing, personal social services and criminal justice (Alcock, Erskine and May, 2003).

But, usually, the scope of social policy consists of income maintenance, health and social services, and sometimes includes education, housing and employment policies (Gough, 2000: 181). In the case of the scope of social welfare benefits and services in the research, I shall use the term ‘social protection and health’ and attempt to restrict the scope of research to reveal the features of the Korean welfare mix. Here I define social protection and health benefits as public and private equivalents of income maintenance, health and social services including Active Labour Market Programmes (hereafter, ALMPs). With regard to housing benefits, only public assistance programmes provide relevant housing benefits¹ on a means-tested basis under the heading of ‘social protection’, but I do not consider other types of private housing provisions. In addition, education is excluded from the scope of the research, following the dominant tendency of the IGO’s definitions on social welfare expenditures² (Adema, 1999, 2001 for the OECD guidelines; European Commission, 2000; ILO, 1996).

However, this definition is seemingly service-based primarily focusing on who takes benefits and services, how they are run and how they perform. Of course there are crucial tasks in social policy analysis but, in this case, various types of state interventions that influence human well-being – such as labour protection, the establishment of minimum wages, regulation of non-state sectors etc. – could be excluded. In this respect, Gough defines the term social policy as ‘forms of state intervention in the sphere of reproduction of labour force and the household’ (*Ibid*). Especially, it is very important to acknowledge in the welfare mix research that these state interventions directly and indirectly influence the welfare provisions from non-state sectors. Therefore, I shall include the role of the state in finance and regulation within the scope of the research. Accordingly, research concerns are restricted to the structure of welfare mix provisions, but also covers issues concerning the finance and regulation of the welfare mix.

¹ In Korea, housing benefits were firstly introduced in the public assistance reform of 1999.

² In reality, there has been a dispute whether education expenditures should be included in the overall welfare efforts of a nation. The ideological tension regarding higher education forms the central part of the dispute. For details on the dispute, see Wilensky et al, 1985 (Chapter 1). In most international guidelines on social expenditures (or social security cost, social protection), education expenditures are not included. More importantly, under the Korean academic tradition, education policy has been largely separated from social policy discussions. The research is reflected by the situation in Korea. Instead, I shall provide some results on the welfare mix expenditure structure including education expenditures in Appendix 5.

1.5. Research Methods

This single case study is eclectic, in terms of applying both a long-term historical analysis and a cross-sectional approach. At first, the research is a single case study based on a historically interpretative strategy, despite its relatively short time coverage. According to Ragin (1987), case-oriented research often attempts to accomplish both historical interpretation and causal analysis. Historical interpretive works try to explain 'specific historical outcomes or processes chosen for study because of their significance for current institutional arrangements or social life in general' (p.3). Based on such interpretations, case studies can 'produce limited generalisations concerning the causes of theoretically defined categories of empirical phenomena' (p.35).

In social policy studies, single case studies adapting an elaborate historical interpretive analysis have been quite popular, especially when scholars intend to put an emphasis on the distinctiveness of the case chosen or to provide a counter-case against existing general theories. More representatively, many studies of welfare state development have depended on single case studies. For example, whereas Gough (1978) and O'Connor (1973) attempt to extract the general morphologic construction of the capitalist state from their single case studies on the British and the American welfare states respectively, scholars such as Skocpol (1992) and Korpi (1978) emphasise the distinctiveness of their chosen cases – American exceptionalism³ and the Swedish social democratic model. In addition, some specific case studies on the social policy or welfare state of Korea have emerged recently (H.J. Kwon, 1999; D.M. Shin 2000). This research inevitably requires a historical single case study because it aims to analyse the changes and dynamics of the welfare mix structure in Korea.

The research also applies a cross-sectional method, in terms of comparisons between the different sectors of the welfare mix – the state, the market, the enterprise, the third and the family sector – at different points in time through analysis of the structure of the welfare mix. The dynamic nature of the welfare mix implies that the relative importance of each sector is changeable, so a cross-sectional comparison of the five sectors is required to explain the nature of its dynamic structure.

³ The belated and half-hearted development of social-welfare policies in the US (Pierson, 1994: 31). Also see Weir, Orloff and Skocpol (eds.) (1988).

Followed by theoretical works for constructing the research framework in Chapter 2 and 3 as well as the brief discussions on the environments, institutions and welfare politics in Korea in Chapter 4, the main research tasks, namely to analyse and explain the changes and dynamics in the welfare mix will take place in Chapter 5, 6 and 7. In these chapters, the research not only combines quantitative and qualitative research methods, but also in an inevitably synthetic way, for example, through building on existing sectoral studies and referring to various opinions and debates about policy processes and welfare politics. In Chapter 5 and 6, I shall use quantitative research methods to analyse welfare mix changes. Since there has been no systemic research covering all the different sectors of the welfare mix together, I have to synthesise all split information and data on the welfare provisions of different sectors. The quantitative research includes analysis of both empirical data on expenditure (Chapter 5) and non-expenditure (Chapter 6). Expenditure analysis has been regarded as an appropriate method for measuring welfare efforts and has been used in research on inter-sectoral comparisons and on the overall welfare mix structure covering all five sectors together. Here, I rely considerably on the official, primary data (e.g. the third sector's expenditure on health and welfare⁴) and the secondary expenditure data already produced by other scholars (e.g. the state's expenditure, mandatory enterprise welfare expenditure⁵). However, I also have to gather, reorganise and classify split data and estimate expenditure based on them⁶ (e.g., voluntary enterprise welfare, private income transfers).

In Chapter 6, I turn the analytical foci to the non-expenditure empirical evidence that reveals the institutional features of welfare provisions from the different sectors not indicated by monetary data. Most representatively, for example, the coverage of benefits and the actual number of service recipients are important indicators applied to most components of the welfare mix. In addition, there is other information related to the welfare provisions of state and non-state sectors, such as the number of institutions providing social services, the number of residents in social service institutions, the number of employees and volunteers in the third sector, the income sources of elderly households, the contribution and the number of contract of private individual pensions in the market sector, and time survey data of individuals. Inevitably, this work builds on

⁴ Directly available from *National Accounts*, Bank of Korea.

⁵ Directly available from Kho et al. (2002).

⁶ For detailed research methods on the expenditure study, see Section 5.1.

official statistics and other scholars' studies⁷ on the welfare provisions of specific sector(s). But, again, I shall synthesise and reorganise them considerably to support my arguments on how the welfare mix structure has changed during the research period. I shall also develop my own interpretations on the path-dependent development of the welfare mix changes.

In Chapter 7, the research will also employ a qualitative study to explain the dynamics of the welfare mix. Since this qualitative study focuses on the processes of the welfare mix changes, the contextual explanations are of great importance. To make such statements, I shall depend not only on extensive formal, academic literatures but also a large amount of informal data and information. Firstly, I shall rework the existing data including the academic literatures of other scholars to grasp the bigger picture revealed in the social policy processes and their political nature. But, inevitably, I also depend on various 'grey literature' to develop a more complex understanding of welfare 'politics' and to construct contextual narratives to explain the policy processes. The official statements of business agencies, trade unions and civil society organisations form a particular source of grey literature. These statements reveal the recognitions of the main political actors on environmental factors and their responses to the behaviour of other political actors. Articles in newspapers and other press outputs will give information on the dynamic interaction between different political actors. And I shall cite the comments and speeches of the President's directly or indirectly (via newspaper articles), to indicate the position of the government and/or the Presidents themselves at each particular moment in time. Furthermore, I have gathered reminiscences of key personnel, both directly and from mediated sources, to discover the stories behind the policy processes and/or policy decisions. I have also depended on a collection of the reminiscences of and interviews with the key personnel of the Civilian government, which have been produced and published by a newspaper company⁸. Regarding the relatively recent welfare politics under the Kim Dae Jung government, I have directly obtained the

⁷ There have been many studies on the development and/or welfare provisions of the state sector, the enterprise welfare and the third sector (see Chapter 4 and 6). But in cases of the markets and the family, theoretical and empirical concerns of social policy studies have been either very low or restricted to some fragmented issues like private income transfers (e.g., B.D. Son, 1998, 1999), so systematic academic research on either the market or the family sector has been scarce in social policy studies in Korea.

⁸ Special News Team of *Dongailbo* (an influential newspaper company in Korea), *Lost 5 Years – the behind stories of the Civilian Government 1800 days*, 1999. This two-volume, 700-page-long book is the collection of the newspaper articles that were published serially in 1998, including a wide-range of reminiscences of and interviews with influential politicians and key personnel of the government.

relevant information from interviews with two professional activists who worked for civil society organisations and were deeply involved in the social policy making processes. By synthesising formal and informal information alongside existing academic works, I construct contextual statements to analyse and interpret social policy processes and to develop my argument on how environments, institutions and the role of the state and other political actors have been intermediated and how they have been associated with the changes of the welfare mix.

1.6. Organisation of the Research

The research consists of eight chapters. In this introductory chapter, I have already provided the goal and objectives of the research, followed by mentions of why the welfare mix approach is required and why the Korean case selected. It has also introduced some issues regarding the scope and methods of the research. The following two chapters attempt to investigate the theoretical bases of the research related to its dependent and independent variables. The first step found in Chapter 2 is to define the dependent variable. Here I shall introduce the welfare mix approach, examine the welfare mix models suggested so far, and develop a new welfare mix model suitable for the purpose of this research. It is mainly based on a review of the literature on the welfare mix and similar concepts like welfare pluralism and mixed economies of welfare. In Chapter 3, I shall define the main independent variables, present related theoretical works and construct an analytical framework to explain the dynamics of the welfare mix. The independent variables are comprised of three sets. The first set is environmental factors; external forces (economic and political globalisation) and internal pressures (transition from an industrial to a post-industrial society). The second and third sets are defined by the term of ‘political institutions’ covering democratic political institutions and the ‘institutional legacies’ of the welfare mix respectively. Based on the theoretical works presented in Chapter 3, I shall propose a research framework to analyse how the defined independent variables influence welfare mix

changes through which policy processes.

From Chapter 4, the research focuses on the Korean case. Initially, before analysing the welfare mix in Korea, Chapter 4 briefly describes trends within the independent variables during the research period to gain a basic understanding of the economic, political and social circumstances of Korea. Furthermore in looking to take a longer historical perspective I shall examine the development of the welfare mix since the 1960s when the Korean industrialisation took off, because these works in this period could provide discussion of the path-dependent development of the welfare mix in post-1987 period. Following brief discussion of the basic conditions for the development of the welfare mix, the research focus is restricted to the period between 1987 and 2002. In Chapters 5 and 6, I shall provide wide ranging empirical evidence about the provisions of the welfare mix and the changes in the welfare mix during the research period. In Chapter 5, despite the expenditure study covering only the period between 1990 and 2001 due to data restriction, it will be able to show trends in various aspects of welfare mix changes. Chapter 6 will present other important qualitative and quantitative evidence to illustrate the extensive institutional features of the welfare mix changes, which cannot be grasped within monetary terms. These analyses of welfare mix changes and its provision should reveal the dynamic nature of the welfare mix over the research period. The last research stage explaining the welfare mix changes is placed in Chapter 7. Here I shall turn the analytical focus to the qualitative, political processes of welfare mix changes. This will be done by looking at chronologically at how political institutions and other environmental factors have influenced the welfare mix changes through which political and policy processes. Ultimately, I shall argue the importance of national politics to the dynamics of the welfare mix in Korea.

Chapter 8 will give conclusions where I shall summarise the main findings in chronological order before proceeding to additional discussion on the path-dependent route of the welfare mix changes. The main explanations and arguments of the research will be rearranged into a variable-by-variable order. Overall in a departure from functionalistic perspectives that usually overemphasise the impact of environments, I shall argue the importance of political institutions and national welfare politics to the welfare mix, rather than the welfare state in specific. Finally, I shall suggest the direction of future research, i.e., the necessity of the welfare mix approach in social policy studies.

CHAPTER 2. THE WELFARE MIX APPROACH

Historically speaking, the mixed state of welfare existed far before the emergence of the welfare state. Even after the settlement of the welfare state, as Rose (1985a: 13-15) indicates, the state has never been the sole source of welfare provision and a reduction of the state does not necessarily reduce the overall welfare level in a society. However, it was relatively recently that social policy research began to put its emphasis on the welfare mix. A rise in discussion of the welfare mix has accompanied the critiques on the traditional welfare state model since the late 1970s. Instead of the Post-War Consensus on the so-called 'Keynesian-Beveridge welfare state'¹, a new social consensus, which accepts a mixed economy of welfare, seems to have emerged.

Basically, the notion of the welfare mix is likely to be based on the idea that there exist 'functional equivalents' to the state sector with which the 'welfare needs' in a society can be met (Gough and Kim, 2000). The level of well being in a society cannot be recognised only as the state's commitments to social welfare, but can be understood as the result of a wider welfare mix structure incorporating the market, the third sector and the family. In this respect, the terminology of the 'welfare mix' can be understood as the analytical and empirical concepts for indicating the mixed state of welfare. Here, we need to distinguish the welfare mix from other similar terminologies – the 'mixed economy of welfare' and 'welfare pluralism'. All of these terminologies have often been used interchangeably. Although all refer to the mixed or plural characteristics of social welfare provision in general and social services delivery in particular, they seem to have

¹ However, the terminology of 'Keynesian-Beveridge welfare state' almost synonymous to the 'Golden age of welfare capitalism' is wrong if we remember Beveridge as a welfare pluralist. He asserted that the level of social benefit should remain at a 'minimum' level not to violate an individual's voluntary effort and work incentive (Pinker, 1992:275). Private savings should be supplemented by social insurance benefits in his three-tier income maintenance system (Beveridge, 1942). In reality, the development of the British welfare state for the 30 years after the War, had been based upon the Marshallian principle, i.e. social right, rather than Beveridgian national minimum principle. It was Thatcher's government that returned to Beveridge in terms of welfare pluralism (Pinker, 1992; Powell & Hewitt, 1998). What is different from Beveridge's notion, however, is that 'the new social consensus' seems to accept the mixed economy of welfare in basic welfare provision (Powell & Hewitt, 1998:8).

different origins, emphases and contexts.

Most of all, the term welfare 'pluralism', implies a rather political and ideological orientation especially within the British political tradition. Welfare pluralists argued that the state-dominated structure of welfare provisions should be pluralized to cope with the problems of state welfare provision. It is inevitably related to the controversy of welfare responsibility between private and public sector (Johnson, 1993; Walker, 1993). Although not all welfare pluralists assert the declining role of the state in welfare provision, welfare pluralism itself has been frequently used as common rhetoric for the New Right to promote privatisation. On the other hand, the term mixed 'economy' of welfare has more economic and managerial concerns like efficiency and effectiveness. This term seems basically affinitive to the market, so has been widely used when discussing the introduction of market principles or quasi-market factors in the delivery system of social services, such as competitive tendering, contracting-out, the introduction of fee-for-services, allowing commercial providers of social services, and cost-effectiveness evaluation. Although such initiatives originated from the US tradition which stresses the relationship between the economic and social market (Gilbert & Gilbert, 1989; Gilbert, 1993), the introduction of market principles in social services has become pervasive in most European countries since the 1980s (Ascoli, 2002; Ascoli and Ranci, 2002).

Different from welfare pluralism and mixed economy of welfare, the term 'welfare mix' is a relatively neutral terminology, which expresses a mixed state of welfare production, delivery and responsibility in a society (Rose, 1985a; Evers, 1993, 1995). Although it has been used as a term relatively free from both economic rationalism and ideological debates, the welfare mix often implies dynamics between sectors and a potential change in the mixed state of welfare. According to Evers (1993: 28), whilst both welfare pluralism and welfare mix are concerned with the historical, conceptual and value dimensions of pluralism, 'it is the welfare mix approach which centres on the question of linkages, interactions and balances between the sectors of pluralistic welfare systems'.

The remainder of this chapter divided into four sections. To understand contemporary issues regarding the welfare mix approach, the next section briefly introduces the trends of discussions and debate related to the welfare mix approach, based on literature reviews. The second section investigates the welfare mix models

proposed so far, discusses their limitations and suggests a potential alternative model to analyse the welfare mix structure among different sectors of the welfare mix. The third section defines five sectors of the welfare mix and examines relevant theoretical and empirical issues to clarify what is meant by each of the five sectors. The fourth section makes short concluding remarks concerning constructing a theoretical framework for an analysis of the dynamics of the welfare mix structure.

2.1. Literature Reviews: Discussions around the Welfare Mix

In this section, I demonstrate three major trends in the discussion of the welfare mix approach. First of all, I briefly illustrate the historical development of welfare mix discussion, following such relevant traces as the rise of welfare pluralism as the critique to the traditional welfare state model, the privatisation and marketisation of social welfare systems by New Right governments, the enhanced role of the third sector or civil society as the alternative to both state and market, and the emergence of the Third Way which emphasises the private-public partnership in social welfare. Whereas the first stream of discussions have been related to restructuring the welfare system towards a more mixed one, the second and the third trends pay more attention to a specific component of welfare mix. The second stream is the critiques of feminists both on the gendered nature of the welfare state and on privatisation by New Right governments. Especially, their micro-perspective on informal caring indicates that the burden of family equates with the burden of women. The third set of discussions focus on the role of enterprise (or occupational) welfare in the welfare mix, especially in East Asian welfare models.

2.1.1. Historical Trend of Welfare Mix Discussions: from Welfare Pluralism to the Third Way

It was during the 1970s that welfare pluralism became fashionable. The rise of welfare pluralism, especially in the UK, was primarily related to critiques of the traditional welfare state. Most critiques by welfare pluralists have focused on the centralised administrative system of statutory welfare; rigid bureaucracy, lack of responsiveness and flexibility to clients' needs, centralised control on resources and power, problems of democracy and participation in decision making process, limited freedom of choice, ineffectiveness and inefficiency, excessive professionalism and so on (Wolfenden Committee, 1978; Hadley and Hatch, 1981; Beresford and Croft, 1984; Johnson, 1987; Mayo, 1994). Therefore welfare pluralism supports decentralisation and participation in welfare provisions in general and particularly in social services. Welfare pluralists suggest enlargement of the informal and voluntary sectors, but they see neither sector as an exact substitute for the state, and do not desire a widening commercial sector (Johnson, 1987: chapter 3). The state should maintain its position as the regulator and main funding body despite its reduced role in welfare provision.

Although welfare pluralism *per se* does not mean a reduction in the state's role, it has been exploited by the New Right, as rhetoric for privatisation strategies to disengage the state and vitalise the commercial sector. From the early 1980s, after the collapse of the social consensus on the mixed economy based on the Keynesian economics, the Reagan administration in the US and the Conservative government in the UK attempted to roll back the state in social and economic spheres and to restore the market principle within social welfare. Welfare pluralism, for the New Right, is a synonym for privatisation and commercialisation in welfare provision (Johnson, *Ibid*). Although their efforts for the retrenchment of the welfare state were not successful in universal programmes, there were significant cuts in public assistance programmes as well as the implementation of massive privatisation policies in health, housing, education and social services (Pierson, 1991; Pierson, 1994; O'Connor, 1998). As a result of those privatisation policies, private markets were greatly expanded under New Right governments in areas which had originally been regarded as the state's primary provisory responsibility, such as pension, health and social services². Moreover, market

² In the UK, 20% of households are paying into personal pension schemes in 1993 (Association of British Insurers, 1997: 56). In the US, while traditional occupational pension schemes have declined since the 1980's because of the higher pressure on cutting labour costs, there has been a significant growth in more individualised schemes financed by the employee with tax benefits, e.g. 401K plans and IRA (Esping-Andersen, 1996: 16). In the health service area, the importance of private health insurances increased not only in the US where private markets have dominated health services and the people under 65 do not have

principles such as cost-effectiveness, competition, and consumer choices permeated even the realms of public social services, in the UK via the introduction of such systems as quasi-markets and compulsory competitive tendering (CCT)³ (Glennister, 1998; Glennister and Le Grand, 1995; Le Grand and Bartlett (eds), 1993). The introduction of the quasi market in health services and community care from 1991 was based upon the expectation that competition within the quasi-market was likely to 'induce efficiency, increase choices and empower users' (Johnson, 1999: 123). These strategies targeted the marketisation of provision and delivery structures while the state maintains its financing and regulatory role. In a sense, a higher reliance upon private markets and marketisation strategies seems to reflect a greater concern about the issue of economic efficiency. However, at the same time, these features of welfare pluralism fuelled by the New Right have concentrated on aspects of political reasoning and ideology, especially in the UK (Evers, 1993: 12-3). Under the ideology of the New Right, welfare pluralism has been no more than a levy of state's responsibility to the private sector and an effort to seek a cheaper alternative. Therefore, for those who are opposed to welfare pluralism, the alternative to the existing welfare state is to change the state sector itself (Walker, 1993).

On the other hand, there has been another trend that focuses on the welfare mix, stressing the role of the third sector as the alternative to both state and market. It sees the third sector as crucial in restructuring the welfare system and, in some cases, reorganising the relationship between state and civil society. According to Hansmann (1987: 29-32), consumers do not have as much information as providers when they purchase some kinds of goods and services. In these circumstances, the market principle that assumes consumers' free choice on the basis of sufficient information cannot work normally. As a result, some proxy indicators that can assure a certain degree of standards within the services may be needed at the time when consumers choose their

public health insurance, but also in the UK, Netherlands, France and Germany (Choi et al, 2000; Brunsdon, 1999). Aside from pension and health services, nursery and residential services have been highly dependent on the private market. Traditionally, family-run small businesses in the private market have been major providers in residential care in the US. Recently, however, large-scale, franchised residential and nursing facilities are growing fast (Gilbert and Gilbert, 1988). The Private market is also dominant in Canada and Japan (Johnson, 1999: 131). In the UK, the proportion of the private market in nursing and residential home industry has been increasing dramatically since mid-1980s; in 1995 73% of nursing home and 55.7% of residential home places were provided by the private market (*Ibid*).

³ While Britain has created a new type of market (internal quasi-market) within the public boundary, American approach was placed by the use of existing private markets outside public sphere. Based on the liberal economic thought that prefer cash benefits rather than in-kind types not to hurt private markets, the US has developed voucher systems like food stamps as well as expansive tax expenditure schemes (Gilbert and Gilbert, 1989; Gilbert, 1993).

providers (Salamon, 1987: 109). Here, the non-profit nature of the third sector can provide that kind of signal. Consumers suppose that third sector organisations would provide a better quality of service than those provided by for-profit organisations because third sector organisations are based on a more charitable and humanistic purpose rather than motivation for profit. Therefore, third sector organisations seem more deserving to attract consumers' trust. On the other hand, third sector organisations can be expected to overcome the limitations of state services (Douglas, 1987). It can serve the minority, and they may give consumers a greater variety of choices as well as an increased opportunity for participation (Johnson, 1987: 114). Furthermore, when a new need arises that the government cannot cope with, the third sector agencies can provide new social services, to fill the void (Kramer, 1981: 8)

However, explanations based on economic rationality vis-à-vis the government and market failure have been subject to severe criticism by scholars of the European third sector. Evers argues, for example, that the economic rationality perspective that regards third sector organisations as either competitors to market providers or a substitute for state agencies ignores the potential of fostering social cohesion and empowerment⁴ (Evers, 2001: 222). For Evers (1993), the third sector seems central in the definition and discussion of the overall welfare mix. He suggests the third sector as part of the public space in civil society intermediates different social spheres and rationales. Due to its character, the tension field between state, market and community, many third sector organisations are themselves mixed in the welfare mix (Evers, 1993: 21). This is an indication that the borders between sectors have become increasingly blurred. Most of all, the concept of the welfare mix implies a mission to search for more synergetic welfare mixes, which could improve efficiency and guarantee a more participatory, democratic system. Kendall (2000) also has a relatively optimistic view on the contribution and potential of the third sector in terms of flexibility, social capital and innovative intelligence in policy processes. He evaluates it as the main force which has induced the restructuring of the welfare system to counteract attacks on the welfare state.

⁴ Evers argue that, 'first of all, it neglects people's role as *cooperating citizens or members of a community* – as people who are capable of joining in 'civic' actions e.g. by associating and volunteering; secondly, the consumerist orientation, which is exclusively about the 'exit' options of service consumers tends towards disregarding people's role as *producers and/or co-producers* of social services – their 'voice' options, as members of associations, cooperatives and other third sector organisations' (Evers, 2001: 222, *Italic from original*).

We can ascertain that European intellectual traditions have often focused upon the third sector as the alternative to improve the quality of social services, and also to encourage people to participate in the decision making process. Here third sector organisations are the basic components for producing social capital⁵, so they become the main source of alternatives towards 'making democracy work' (Putnam, 1993). In this respect, Pestoff's social enterprises and Hirst's associations, which are for a more participatory and democratic social service system, are the other names of the third sector organisations (Pestoff, 1998; Hirst, 1994; 1997). However, despite its analytical strength on the role of the third sector in the welfare mix, such a society-centred approach seems to overemphasise the third sector or voluntary sector in the overall welfare mix and seems to concentrate mainly on social service rather than welfare system as a whole. This approach is relatively ignorant of traditional income maintenance schemes. Above all, most researchers from this approach have an overly romantic view of the potential of the voluntary sector.

Nevertheless, the role of civil society and the private-public partnership has been highlighted again, and even embodied more politically and ideologically, by the 'Third Way'. Although the 'Third Way' has been suggested as a broad term to refer to the 'renewal' of social democracy and/or the overall reform projects of leftist parties⁶, we can find that some of the key areas of structural reform identified by third way approaches retain the welfare mix approach. The third way criticises the market fundamentalism of the New Right and argues the necessity of widening the interventions of the government. It emphasises that 'the state should not dominate within markets or civil society, although it needs to regulate and intervene in both' (Giddens, 2001: 6). In reality, the approach does not deny the necessity of the marketisation and decentralisation strategies originating from the New Right, but instead looks to follow them with substantial reforms to gain better co-operation and a better quality of service (Blair, 1998, 15-17). At the same time, the third way places the

⁵ Putnam defines social capital as 'features of social organization, such as trust, norms and networks, that can improve the efficiency of society by facilitating coordinated action...Like other forms of capital, social capital is productive, making possible the achievement of certain ends that would not be attainable in its absence.' (1993: 167)

⁶ Often the Third Way has been referred to 'recovering from long periods of neoliberal rule', but Giddens himself defines it much more broadly as 'a much more generic series of endeavours, common to the majority of left parties and thinkers in Europe and elsewhere, to restructure leftist doctrines (2001: 1-2)'. So, according to Giddens, there are different third ways, not only New Democrats in the US and New Labour in the UK, but also 'Neue Mitte' in Germany and other left parties' routes in many European countries.

role of civil society at the centre of its modernisation projects. It explicitly proposes a partnership with the voluntary sector in welfare provision and targets to strengthen civil society (*Ibid.*: 14). Moreover, even though it recognises that the traditional family (breadwinner) model is not feasible any more, it does not forgo to encourage the obligation of individual and family (Giddens, 1998: 89-98). However, despite encouraging non-state sectors, it stresses the positive role of the state in social welfare, particularly as the most important financer and regulator in health, education and social services. After all, we can ascertain that, in a departure from the radical marketisation strategies of the New Right, the Third Way strongly emphasises the welfare mix approach on the policy agenda of leftist parties, in looking to at least in theory balance the state, market, civil society and family.

2.1.2. Feminists' Critiques

Feminist scholars have concentrated on the gender issue embedded in the origins of the welfare state. According to George and Wilding (1994: 138-141), feminist critiques over the welfare state can be summarised as follows. First, based on the male breadwinner model, the traditional welfare state has reinforced women's dependency on men as well as the inequality between genders because their entitlement to social benefits depends on the contribution of their husbands (also see Sainsbury, 1996). Second, the welfare state has failed to consider the particular needs of women related to 'balancing home and work' as well as the caring responsibility. Third, social policies have reinforced traditional family norms and the gender division of labour. One of the basic assumptions of the traditional welfare state is that women take the caring responsibility which is considered as their natural role.

Moreover, the trend of pluralizing welfare systems has reinforced women's dependency. The privatisation of social services since the rise of the New Right deteriorated the position of women in society because the deinstitutionalisation of social services (in the name of community care) has imputed the state's caring responsibility to the informal sector and to the family in particular. In this respect, Finch (1984) argues that community care is a fundamentally gendered concept, and Finch and Grove (1980) indicate a dual equation that community care equates to family care and family care to

care by women. Somewhat differently, May and Brunsdon (1996) analyse the impact of marketisation upon gender relations. For them, there has only been freedom of choice for men, and the enlargement of private welfare markets has nurtured a greater division of labour not only between genders but also among women. Wider sexual division in the labour market is primarily caused by the fact that the production and consumption of private welfare services are highly dependent on women. For most women there are few alternatives other than low-paid jobs in the private welfare market. Moreover, it must be pointed out that the privatisation of welfare designed to, rhetorically, 'maximise choice of freedom' has been accompanied with an 'espouse of family responsibility'. These circumstances seem to entail greater dependency upon men (May and Brunsdon, 1996).

As an alternative to both traditional welfare models and privatisation of social services, O'Connor et al (1999) suggest the notion of 'defamilisation', which is defined as the capacity to form an autonomous household, vis-à-vis 'decommodification' from the labour market. A core feature when discussing gender relations within a state is whether women – like most men – are in the position of being able to choose freely whether or not they enter marital or other relationships. They suggest two to enhance women's independence; paid work in the labour market and cash benefits from the state for their caring as a citizen's wage. Although their critiques on the lack of labour market dynamics, their suggestions are very similar to Sainsbury's (1996) 'individual model', in which 'both men and women are earners and carers, benefits are targeted on individuals, and much caring work is paid and provided publicly', as an alternative to male breadwinner model.

Despite the theoretical contributions of feminist approaches on the gendered nature of the traditional welfare state and informal care, there is a critical problem in assuming that all women share common interest regardless of class, race, immigrant status and so on (O'Connor et al, 1999; Ungerson, 1997; Morris, 1997). In practice, this is a hazardous assumption. There exist severe inequalities among women of different classes or groups. In addition, the private welfare market increases the division of labour, between well-educated career women whose domestic work and care responsibility commitment are easily resolved by the market and the less-advantaged women (mostly low income, black, immigrant women) who may suffer low-paid work and a domestic caring responsibility. It is dangerous to overemphasize gender without reference to traditional class structure, and issues of ethnicity and immigrant status. Moreover,

Ungerson (1997) stresses that a number of feminist analyses have overemphasised the gender inequality of the caring obligation 'between' generations but neglected the gender issue within generations (or marital relationship). Using OPCS surveys, Arber and Ginn (1997) challenge the stereotype of 'carer as middle-aged women' and demonstrate that the elderly are not only care-receivers but also care-givers that look after their grandchildren and/or spouses. In addition, many empirical studies have indicated that, even though most of the informal caring burden is attributed to women, the caring experience is not exclusive to women. Based on the General Household Survey, Arber and Ginn (1999) argue that in some situations men also provide high levels of informal caring or emotional supports. Spillman and Pezzin also report that, in the US, despite a significant gap between genders, the portion of male care-givers (husbands and sons) has increased significantly and, accordingly, the gap has been reduced dramatically⁷ (see Spillman and Pezzin, 2000: Table 4 & 5).

2.1.3. Enterprise Welfare and East Asian Welfare Model.

As pluralizing welfare provision has been a main strategy for the welfare state reform, the relative importance of occupational welfare has increased in the overall welfare mix (Johnson, 1987: 138-139). Shalev (1996) argues that one of the most important changes to the welfare state has been the privatisation of responsibility in pension schemes and major direction has been the expansion of occupational pension schemes, in most advanced welfare states. The institutional features of occupational welfare and their relation to the state sector have been highlighted as crucial factors to categorise different

⁷ This trend also can be extracted from Gershuny et al.'s work (1991). He categorises the existing studies on the relationship between married women's employment and their unpaid housework into two; i.e., adaptive partnership model and dependent labour model (Gershuny et al., 1991: 151). The former assumes that, when wives are employed, husbands spend more time doing housework in order to compensate for their wives' increased responsibility. The latter, by contrast, argues that women's primary work is unpaid housework, not paid work in the market. Therefore, women's dual burden can be expected. Many empirical studies have supported the dual burden proposition. However, he suggests the alternative model, the lagged adaptation model, that the behaviours of households are adaptive to the changing environments but through an 'extended process of household negotiation, extending over a period of many years, and indeed across generations' (Ibid). He concludes that, 'with women's increasing entry into paid employment, so their total work load increases, as the DL (Dependent Labour) hypothesis would predict. But the increase is moderated, though not entirely offset, by the substitution of some male unpaid work for some female. The compensation is not perfect as the women's paid work increases faster than the men's substitution of unpaid for paid work, but nevertheless a process of adaptation is clearly under way' (Ibid, 183).

welfare regimes (Esping-Andersen, 1990). Furthermore in Scandinavia in particular where occupational welfare has been regarded as complementary rather than supplementary to the state welfare, occupational has been recognised as the genuinely hybrid state of welfare – i.e. the interwoven area between the private and public sector, and the expansion of occupational welfare does not automatically crowd-out public welfare programmes when the power of trade union is strong. (Esping-Andersen, 1996b: 329-30). As the coverage of occupational welfare grew, manual workers claimed equal treatment more and more, and it resulted in the legislation for a universal second-tier occupational pension in Scandinavian countries. This is what he calls the ‘leap-frogging’ model, which represents the power of mobilised labour. It is justifiable in terms of the fact that occupational welfare has been very closely connected with state intervention, either through indirect incentives like tax benefits or a more direct form of regulation such as mandatory coverage. In this respect, occupational welfare should not be disentangled from the welfare state (Shalev, 1996: 4).

Enterprise welfare and related state interventions are emphasised when East Asian (Korea and Japan in particular) welfare models are discussed. Along with a strong familial tradition, well-developed enterprise welfare systems have been regarded as an important component of their social welfare models (Esping-Andersen, 1997; K.Z. Hong, 1999; Jacobs, 2000). One of the most popular explanations of the higher level of enterprise welfare, compared with a relatively low state commitments to direct social welfare benefits and services, is the cultural approach that puts an emphasis on societal particularity in the development of enterprise welfare. The cultural explanation argues that enterprise welfare in contemporary Japan is the direct result of traditional values peculiar to Japan such as a group-oriented mentality or paternalistic employer-employee relations (Abegglen & Stalk, 1985; Gordon, 1988; Vogel, 1985). Enterprise welfare has an affinity with Familism or Confuciansim, which place their priorities on cooperation and harmony within an organisation. Employers have absolute authority and a responsibility to look after their employees, while the virtues of employees are devotion and obedience to their companies. Enterprise welfare makes up the fourth pillar of Japanese industrial relations, alongside life-long employment, a seniority wage system and enterprise unionism (Dore, 1973; Song, 1994; J.S. Park, 1997; Peng 2000).

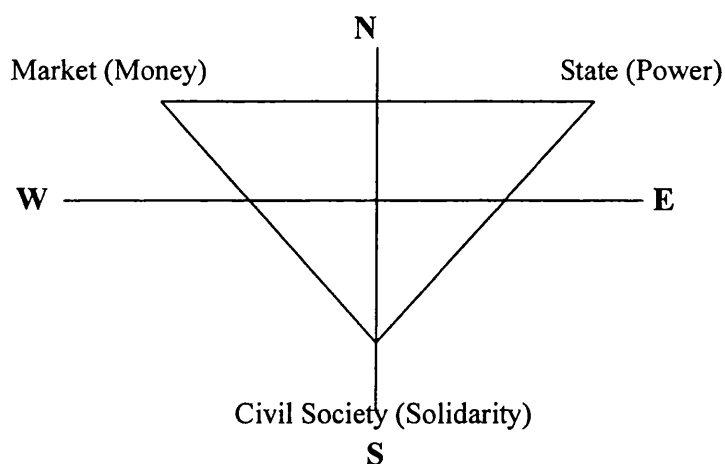
However, the cultural explanation ignores factors that influence the diversity and dynamics of enterprise welfare, i.e. the role of the state, and the behaviour, power and

strategic choices of trade unions and business⁸. According to Cho (1996), the Japanese enterprise welfare system is a historical product of the labour militancy in the immediate postwar period on the one hand, and of the consolidation of enterprise unionism in the 1950s on the other. The generous enterprise welfare benefits were the product of the strategies of employers to strengthen pro-company unions, whilst at the same time it trying to weaken the militant unions. It formed the compromise between employers and pro-company enterprise unions. These features are also found in the development of enterprise welfare in Korea. According to Park (J.S. Park, 1997), since the political democratisation of 1987, enterprise welfare is the compromise outcome bargaining between business and labour, based on enterprise unionism, which limits the distribution issues to wage and enterprise welfare within a firm. Most of all, intentionally or unintentionally state interventions have stimulated the growth of enterprise welfare in the region. The government encouraged enterprise welfare through various policy instruments whilst it was reluctant to expand state welfare. There is an argument that weak trade unionism in Japan has been nurtured by social engineering by the government and business, rather than cultural factors (Johnson, 1987). But while Japanese industrial relations are based on the indirect and more sophisticated 'soft authoritarianism', Korean industrial relations are more dependent on 'hard authoritarianism', whereby the state directly controls or represses labour (J.S. Park, 1997). In Korea, based on the developmental state perspective – a strong and autonomous state insulated from interest groups including business – the nature of enterprise welfare has been often characterised by the state-centred approach. In other words, the state forced firms to expand their welfare roles instead of expanding its own direct welfare provision, as a *de facto* imputation of the state's welfare responsibility to the business sector (Choi, 1992; Song, 1994).

⁸ The cultural-societal approach has more limitations. As Russell argues, the paternalistic feature of occupational welfare is not specific to Japan, rather it is a general feature even in the UK and the US (Russell, 1991: 270-273). Moreover, enterprise welfare under the state-socialism was evidently paternalistic (Lee, M.K., 2000). Furthermore the approach cannot explain its diffusion and imitation process (Park, J.S., 1997). If industrial relations including enterprise welfare were embedded in a specific cultural or societal tradition, it would not adapt to a new environment. But, as seen from the recent diffusion of Japanese industrial relation to Europe and America, the custom of industrial relation seems to be relatively autonomous from societal-cultural factors. Furthermore, assuming the given situation, cultural explanations can neither explain the historical context how enterprise welfare has been developed, nor the reason why the level and programmes of enterprise welfare has been different and discriminated from one enterprise to another.

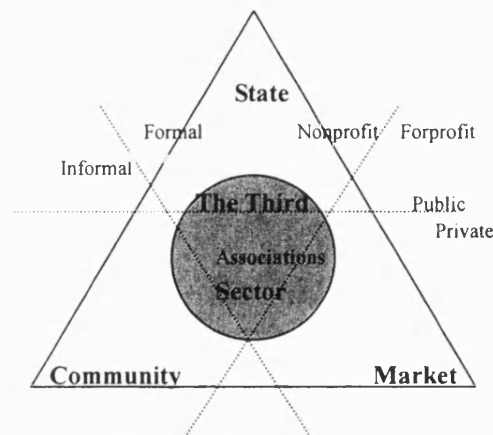
2.2. Models of the Welfare Mix

After the pioneering work by Titmuss (1958), various welfare mix models have been suggested since the 1980's. Rose (1985a, 1985b) classifies three components of welfare production – state, market and household, as does Esping-Andersen (1990). Whilst Rose, using empirical data, shows that the relative share between three sectors has been significantly stable since early 1950's in the overall British welfare mix, Esping-Andersen focuses on how the risks and welfare functions have been allocated between state, market and household, within a political economy framework. However, both of them do not include the third sector. For Rose, voluntary (non-profit) organisations are not different to for-profit market organisations, since; they pay salaries and wages to their employees and, secondly, 'profit is a small portion of the total cost of producing a service, and the cost per beneficiary is virtually the same in these organisations as elsewhere' (Rose, 1985b: 17-8). However, the following criticisms are raised; the first criticism is that the state is one of the main employers, and the second is that the important principle for distinguishing between sectors is not the difference in production cost, but the purpose and principle of provision. Whilst Rose indicates the reason why the voluntary sector has not been considered, Esping-Andersen does not, despite his reference to and acknowledgement of its importance.



Source: Abrahamson, 1992: 6

Figure 2.1. Institutional Organisation of Welfare in Post War Europe



Source: Pestoff (1998: 42)

Figure 2.2. The third sector and the welfare triangle

Genuine welfare mix models have been suggested as a form of ‘welfare triangle’. Abrahamson (1992) shows a welfare triangle, which consists of the state, market and civil society (see Figure 2.1). The principles of the three sectors are defined as power, money and solidarity respectively. The triangle represents the overall picture of the modern welfare system in post-war era in Europe; state-socialism in Eastern Europe, a social insurance-based (market principle) welfare state in Western Europe and the more dominant roles of civil society institutions in Southern Europe. However, this model has a crucial limitation, i.e., an ignorance of the informal sector in the welfare mix.

More elaborate welfare triangle models have been proposed by Evers and Pestoff. For Evers, the three angular points comprise state, market and community (informal sector), with the third sector located in the ‘tension field’ where different social spheres and rationales are interwoven and intersect; i.e. 1) the conflict between the market (instrumental rationality), the third sector and state (solidaristic and democratic values), 2) the tension of the state (universalism) vs. the third sector (specialisation), and 3) more blurred borders between the informal and third sector, which both of them share the principles such as personal relationship, neighbourhoods and social network (Evers, 1993, 1995).

This idea about the welfare mix has been developed further by Pestoff (1998). He suggests the concept of the welfare mix as a set of coordinates to assess the changing configurations of providers of welfare services. At the macro level the idea of the welfare mix indicates a variation in the relative importance of each sector in the

governance of society, whereas at the micro level it presents the role of sectors within the social welfare delivery system. The welfare mix is neither fixed nor same, but it is a political, social and temporal term. A change in the welfare mix implies a change in dominant social values. As Figure 2.2 shows, he considers three essential dimensions constituting a very elaborate welfare triangle model – public/private, for-profit/non-profit and formal/informal. Although his model shows the interaction, tension and potential cooperation between sectors, it is inevitably a third sector centred approach, rather than a neutral model to understand the overall welfare mix. It has the assumption (as Evers does) that the third sector should play a crucial role in the welfare mix of a society. For Pestoff, it is the third sector that coordinates and intermediates different sectors. It is the third sector that seems the only alternative ‘beyond the market and state’.

In practice, however, it is the state that can plan the nation-wide welfare model, regulate other sectors, mobilise resources and allocate them. It relies on the role of the third sector too much. It is a society-centred approach, followed by the state-centred approach of the traditional welfare state models. What is necessary in welfare mix analysis is not to adhere to a restructuring model based on a specific sector (either a market-oriented approach or the third sector centred one), but to understand the interaction between the state and civil society in the process of restructuring the welfare system. The relative importance of different sectors at different times depends on the previous development path of the welfare system. In terms of cross-national generalisations, no single sector can be stressed or assumed as a crucial sector in the welfare mix.

On the other hand, although both Pestoff and Evers refer to the dynamics of civil society, enhancing democratisation and participation through the third sector seems limited to the domain of personal social services, rather than the whole social welfare system incorporating both income maintenance and health. In other words, for both of them, restructuring the welfare system, particularly with the regards to the role of the third sector, means restructuring ‘social services’, rather than the overall social welfare system. Moreover, the triangle model neither seems feasible to an expenditure study, nor provides a comparative perspective. In summary, existing welfare pluralism or welfare mix debates lean towards normative discussion on which sector should take a dominant role in enhancing certain values such as participation, responsiveness, competition and

equity, rather than presenting an analytical framework to enable researchers to view a complete picture of the welfare mix in a society.

In terms of providing a comparative basis for an expenditure study, the recent efforts of the OECD are useful. The OECD has developed the concept of 'net social expenditure' for an international comparative purpose, and has required OECD member nations to produce social expenditure statistics following its guidelines (Adema, 2001). This model not only considers public social expenditure, but also includes mandatory and voluntary private social benefits, and considers the effects of both direct and indirect taxation. Here voluntary private social benefits are defined as those provided by formal institutions (e.g., employers, non-profit organisations and religious groups) with an element of inter-personal redistribution as well as a 'social purpose'⁹. According to this definition, most private insurance benefits¹⁰, notably private health insurance benefits, are excluded as are inter-household income transfers. However, the 'individual (insurance) arrangements included are outside the social domain as they are based on individual risk-profiles and obtained at prevailing market price' (p.9).

Moving from a narrow measure of public social expenditure to this broader model including private benefits, the OECD measurement substantially reduces cross-national differences in 'welfare effort', if not leads to a convergence of net social expenditures. When all these items and tax-effects are considered, the net social expenditure of Sweden drops down from 35.7 to 30.6 per cent of GDP, whereas the US figure climbs steeply from 15.8 to 23.4 per cent of GDP. These figures suggest that simply considering public expenditures would cause the results to be misleading. Even so, this model conceptually depends on the public-private dichotomy model and inevitably does not consider various components of the welfare mix as needs satisfiers, and disregards informal types of welfare in particular. Therefore, several elements of the welfare mix are excluded from the estimations, notably private purchases of benefits, intra-family transfers and services in kind.

⁹ Regarding the definition of 'social', 'the OECD Social Expenditure Database (SOCX) groups such benefits with a social purpose across the following areas; services for the elderly and disabled; survivors; family cash benefits; family services; active labour market policies (ALMPs); unemployment compensation; housing benefits; public health expenditure; and other contingencies e.g., cash benefits to those on low income' (p.33)

¹⁰ Life-insurance benefits have an evident social purpose with an element of inter-personal redistribution but are excluded due to the difficulty dividing 'survivors components' expenditure data from pay-outs as a saving instrument in case of policy-expiration. But, in Korea, the two different components can be divided.

Table 2.1. Components of the extended welfare mix

	Domestic	Supra-national
State	Public cash benefits and social services	Cash and service flows from international organizations and national donors
Market	Private insurance and purchases of need satisfiers	Private insurance and purchases of need satisfiers from MNCs
Enterprise	Employee benefits provided by domestic enterprises	Employee benefits provided by multinational corporations
Community	Benefits provided by NGO/NPISH* and community organizations	Aid and services from international NGOs
Household	Direct provision of need satisfiers within household	International remittances from household members abroad

* Non-governmental organisations; non-profit institutions serving households

Source: Gough, 2001.

Alternatively, if one focuses on the various sources of monetary income, the structure of the welfare mix could be understood as the sum of individuals' social income. Standing (1999) defines social income (SI) as the sum of the money wage (W), the value of benefits or support provided by the family, kin or local community (CB), the amount of benefits provided by the enterprise in which the person is working (EB), the value of state benefits (SB), and private income benefits gained through investment, including private social protection (PB). However, Standing's concept of social income is basically a monetary aspect of welfare and does not consider service provision. More recently, Gough (2001) proposed an extended model of the welfare mix when he widened the scope of welfare regime research into the developing world. He classified the welfare mix into five sectors – the state, market, enterprise, community (third sector) and households, and extended the range of the welfare mix into the international counterparts to the domestic sources of welfare¹¹ (see Table 2.1). When the extended model is applied to the welfare regime approach, Gough et al. (2004) demonstrate that more informal sources (most notably, family) are crucial in the welfare mix in the developing world.

¹¹ But in the research, I only consider domestic parts of the welfare mix. It is due to the fact that the international dimension is of little importance in Korea, but would be of greater consequence in less developed countries where aid flows are significant, service provision is more internationalized and household migration and remittances are important (Gough and Kim, 2000).

One of the main problems of the welfare mix models introduced so far is that their analytical foci have been heavily dependent on the structure of welfare provision. However, the mixed state of welfare is not restricted to provision. Burchardt et al. (1999), for example, suggest three dimensions of the public-private mix of welfare; i.e., *provision* (who is the provider?), *finance* (does the public sector pay for the service either directly or indirectly?) and *decision* (can individuals choose for themselves the provider used or the amount of service?). Based on these categories, they generate eight possible combinations of welfare activity and classify the forms of privatisation such as outright privatisation contracting-out, marketing public services, user charges, vouchers and tax relief (Burchardt and Hills, 1999).

Thus, the privatisation and marketisation of social service delivery systems have not only brought a more pluralized delivery structure in welfare provision, but have also raised the issue of who pays for them and where the finance comes from. This issue is especially prevalent when related to the rising quasi-markets in a range of social welfare fields like social services, health care, education and social housing (Glennerster, 1992, 2003; Le Grand and Bartlett (ed.), 1993; Taylor-Gooby (ed.), 1998; Ascoli and Ranci (eds.), 2002). In this respect, Glennerster (1992) argues that provision and finance of welfare should at first be conceptually divided. Similarly, the issue of regulation has been a central feature of the welfare pluralism debate (Johnson, 1987). Especially, for those who see a pluralisation of welfare provision as inevitable, the critical issue is how to find more suitable regulatory models to avoid the adverse effects of increasing complexity – e.g. rising inequality and unevenness of coverage (Svetlik, 1993). Most of all, we should recognise that the issues of regulation and finance in welfare provision are closely related to the role of the state. The reduced role of the state in direct provision does not mean reduced state intervention, but implies that it is changing, not withdrawing, its roles focusing more upon interventions as a financer and regulator (e.g., ‘enabling state’ of Gilbert (1989) and ‘the third way’ of Giddens (1998) and Blair (1998)).

So, if we have to extend our welfare mix discussion to the issue of regulation and finance, what would be a possible welfare mix model? Table 2.2 suggests an alternative model, originally developed by Anheier and Seibel (1998), including finance and regulation as well as provision. In their comparative case studies on the former communist societies in Central and Eastern Europe, they demonstrate four ideal

approaches to social service delivery. Between two extreme approaches – state-oriented and market-oriented, there is a traditional mixed economy approach where the government and the third sector are mainly involved in provision, finance and regulation within the welfare mix, and contemporary mixed economy approach where the market sector is included along with the state and the third sector. As Johnson (1999: 25) evaluates, it is an useful model but has a serious weakness: i.e., it says nothing about the balance between sectors. In reality, it neither provides an analytical framework for analysing the relative importance of different sectors, nor does it include two important components of welfare mix, i.e., enterprise welfare and the family. Most of all, the model was originally developed to analyse ‘social service’ structure, rather than to cover the welfare mix as a whole, including income protection.

Table 2.2. Approaches to Service Delivery

Approach	Provision	Finance	Regulation
State-oriented	Government	Government	Government
Traditional mixed economy	Government Vol. Agencies	Government Private sources	Government Self-regulated assocs
Contemporary mixed economy	Government Vol. Agencies Commercial suppliers	Government Private sources Fees and charges	Government Self-regulated assoc Markets
Market-oriented	Commercial suppliers	Fees and charges	Markets

Source: Modified form of Anheier and Seibel (1998); recited from Johnson, 1999: 24.

Then, what should the alternative model of the welfare mix be like? Here, I would like to argue some basic propositions for an alternative model. First, the welfare mix should primarily remain a neutral term to express the mixed state of the overall welfare system. It enables us to understand the dynamic nature of the welfare mix, since it can indicate potential change in the welfare mix without specific preference to a particular sector or value. The theoretical framework should be something beyond both descriptive and normative approaches. Second, the analytical framework of an alternative welfare mix model should be able to cover not only the structure of provision but also the issues of finance and the regulatory structure of the welfare mix. Third, the alternative model should be able to indicate the relative importance of each sector, so

that it may contribute to our understanding about change and variance in the welfare mix, in terms of both comparative and time-series research. Fourth, enterprise welfare should be regarded as a separate sector in welfare mix discussion because the social benefits provided by enterprises for their employees are not necessarily determined by market principles, e.g., a monetary exchange determined by supply and demand.

Table 2.3. Components of Welfare Mix Pentagon: Characteristics and Principles

Components	Public / Private	Formal / Informal	For-profit / Non-profit	Monetary Exchange	Related to Employment	Benefit Principle
State	Public	Formal	Non-profit	No	No/Yes	Right/ Citizenship
Market	Private	Formal	For-Profit	Yes	No	Purchasing Power
Enterprise	Private	Formal	Indirectly For-Profit	No	Yes	Employment Status
Third Sector	Private	Formal	Non-profit	No	No	Membership/ Solidarity
Family	Private	Informal	Non-profit	No	No	Obligation/ Affection

Hereby, I propose a ‘welfare pentagon’ model to investigate welfare mix structure as the dependent variable of the research framework. It is a pentagon model because it divides the welfare mix structure into five components – the state, market, enterprise, third sector and family. First of all, Table 2.3 indicates the basic principles and characteristics of the five sectors. This allows us to reach beyond Pestoff’s model by considering a greater number of dimensions, in order to understand the rationales of each sector. Conceptually, such categories as public/private, formal/informal and for-/non-profit category seem straightforward. But, in the case of enterprise welfare, the dichotomy of for-profit/non-profit does not fully explain the logic of enterprise welfare provision. Of course, enterprises are for-profit organisations but, different from market provision, enterprise welfare provision is not decided so much by monetary compensation but by employment relations and/or status. At the same time, their provisions are also related to such profit-oriented efforts as higher productivity, industrial peace and wage control. So, it is better to define such features of enterprise welfare as ‘indirectly’ for-profit. On the other hand, state welfare is likely to be based on universal principles and social rights, but when the state is an employer it will provide

employment-related provision for its employees. Market provisions are critically dependent on the purchasing power of individuals or households. Third sector provision seems more complex and thus it is difficult to conceptualise its benefit principles by a single word. They can be roughly divided into two types; one being (exclusive) membership and the other is based upon a wider value of social solidarity. The informal welfare provisions of family and household are based on more personalised motivations (affection) or cultural norms (obligation as a family member). Of course, it must be remembered that these characteristics indicate the ideal rationales and, in practice, they exist in various forms leading to blurred areas around the borders. Nevertheless, the features of each sector can be used as yardsticks to classify the specific forms into the five categories.

If the discussions on the welfare mix pentagon model so far have been mainly related to principles and definitions, it is necessary to develop the model to analyse the welfare mix structure. Table 2.4 advances the pentagon model to analyse the welfare mix structure, covering provision, finance and regulation altogether. In terms of welfare provision, the welfare pentagon model I propose does not restrict its scope to social services, but is wide so as to cover various social welfare institutions including both income protection and health care. The provision column of Table 2.4 confirms that, although different sectors can provide functionally equivalent welfare provisions in a specific area (for example income maintenance and social services), the principles and motivations of the welfare provisions are very diverse and differ according to which sector provides as Table 2.3 suggests. The real complexity of the welfare mix approach can be found in the finance and regulation structure, and it is here that we can find the importance of state intervention in the overall welfare mix. The state has a specific role and is involved either directly or indirectly in regulation and finance in all four non-state sectors.

In terms of finance, the state plays a role as an indirect financier through its taxation system. Usually the government provides tax benefits in the form of income or tax deductions for private health and pension insurance premiums as well as on purchases on private services and goods (e.g., nursery, nursing home services and purchases of equipment for the disabled). Employers' contributions for enterprise welfare are also recognised as a kind of labour cost and subject to tax benefits. In some cases, the government provides direct financial support to the third sector organisations

that provide social services instead of the state sector. Also, third sector (non-profit) organisations are not subject to corporate tax. In addition, the government provides tax credits to households for their dependent members such as children, the elderly and the disabled. Similarly, the state intervenes in non-state sectors through various regulations. Public bodies monitor and supervise the quality of services offered by private providers. They also regulate welfare markets. The state can introduce mandatory enterprise welfare programmes as well as permit new welfare markets through legislation. Administration of justice can be involved in family provisions, e.g., unless parents look after their children properly, then they may be prosecuted.

Table 2.4. Structure of Welfare Mix Pentagon: Provision, Finance and Regulation

	Kinds of Provisions	Sources of Finance	Regulation involved
State welfare	<ul style="list-style-type: none"> •Income maintenance •Health care •Social services 	<ul style="list-style-type: none"> •Taxation •Social insurance contributions 	<ul style="list-style-type: none"> •Government •Other Public agencies
Welfare markets	<ul style="list-style-type: none"> •Private insurance in health and pensions •For-profit social services 	<ul style="list-style-type: none"> •Insurance premium •Fees and charges •<i>Tax benefits</i> 	<ul style="list-style-type: none"> •Self-regulating •<i>Govt's regulation</i> •<i>Govt's permission and introduction of new welfare markets</i>
Enterprise welfare	<ul style="list-style-type: none"> •Mandatory enterprise welfare benefits •Voluntary enterprise welfare benefits and services 	<ul style="list-style-type: none"> •<i>Employers' contributions mandated</i> •Employers' voluntary contributions •<i>Tax benefits</i> 	<ul style="list-style-type: none"> •Collective bargaining •<i>Govt's legislation and mandation</i> •<i>Govt's regulation</i>
Third Sector provisions	<ul style="list-style-type: none"> •Non-profit social services •Voice mechanism 	<ul style="list-style-type: none"> •<i>Supports from Gov't</i> •Private givings •Fees and charges •<i>Tax benefits</i> 	<ul style="list-style-type: none"> •Self-regulating •<i>Govt's regulation and supervision</i>
Family provisions	<ul style="list-style-type: none"> •Private income transfers •Informal Caring 	<ul style="list-style-type: none"> •Individuals, households •Opportunity costs •<i>Tax credits</i> 	<ul style="list-style-type: none"> •Morales, obligations, affections •<i>Administration of justice</i>

Note: government's interventions in *Italic*

Therefore, we can evaluate that these state interventions in finance and regulation are the centre of the complexity of the welfare mix. If we specify finance or regulation structure as the criteria that define different sectors, inevitably all the borders

between the five sectors of the welfare mix are blurred because state interventions are present in all non-state sectors. To make clear the distinction between the five sectors of the welfare mix, in this respect, the analysis should focus upon welfare provision. In other words, we can clearly divide the borders among different sectors of the welfare mix only when focusing on their production of welfare. Nonetheless, I shall also deal with the role of the state in the welfare mix with additional analyses of the structures of finance and regulation. Even though the main focus of the research is on welfare mix provisions, explanations of them still privilege the government because of its finance and regulatory role.

2.3. Components of the Welfare Mix

In this section, based on the welfare mix pentagon model proposed so far, I deal with some definitional and theoretical issues to clarify what is meant by each of the five sectors. I focus on role of the state in social welfare, debates of market provision, the definition of enterprise welfare vis-à-vis the market sector, discuss the definition and potential of the third sector, and issues of culture, norms and gender inequality in family provision.

The State Sector

Since there are numerous studies on state welfare, the welfare state or the role of the state in social welfare, here I will only define the major roles of the state in welfare mix. According to Shin (2000: 30-2), the role of the state in social welfare can be classified into four types; i.e., income transferor, service provider, financial supporter and regulator. First, the state provides cash benefits to people through various institutional apparatus like social insurance (entitlement based on contributions), universal allowances (social right) and public assistance programmes (means-tested). Secondly,

the state takes a role as a direct provider in education, training, employment, health and other social services. Thirdly, the state provides financial support to other non-state sectors, both directly through financial subsidies for their social service provisions and indirectly through tax expenditures like tax credits and income deductions. Fourthly, the state plays a role as regulator by establishing conditions and guidelines as well as monitoring and supervising the social services provided by non-state sectors.

Although the traditional ‘welfare’ state model has been the target of criticism – on the grounds of its inefficiency, bureaucracy, unresponsiveness and passivity – and has been subject to restructuring in many advanced economies, the state welfare still remains a dominant sector in the welfare mix when we consider the four roles of the state indicated above. Most of all, universal income maintenance programmes including social insurance benefits have not been touched even in the US and UK where the neo-liberal policy reform agendas were mostly pervasive, even though there has been a significant erosion of public assistance schemes and social services in such countries (Mishra, 1990; Esping-Andersen, 1990, 1996a; Pierson, 1994). However, even in those cases the state’s regulatory role and financial responsibility have been sustained and in some cases reinforced, although in the last two decades a significant portion of the state’s social service provision has been transferred to either commercial providers or non-profit organisations in many advanced welfare states (Ascoli and Ranci, 2002; Ranci, 2002; Johnson, 1999). Instead, it can be noted that the state’s interventions, regarding the third and fourth role, have influenced the welfare provisions of non-state sectors.

The Market Sector

The market provision of social welfare goods consist of financial service markets – like private health insurance, life-insurance (only in case of the death, illness or accident of the insured), individual pension markets – and welfare service markets based on self-payment for health, residential and other personal services. In the market sector, mainly the finance comes from fees, charges and insurance premiums that are collected from consumers according to a ‘fee-for-service (or benefit)’ principle. Despite the existence of government regulation over markets, the market sector is distinguishable from the

other sectors for the following reasons; first, market provision is based on monetary exchange, second, both the availability and service quality are determined by the purchasing power of individuals or households, and, third, commercial providers aim to profit through their welfare provisions (see Table 2.2 and 2.3). These features of market provision indicate two opposed implications.

On the one hand, market provision has been regarded as widening the scope of consumer choice because for-profit organisations must respond to the various and changing needs of consumers better than other forms of organisation, otherwise consumers would exit the market. In theory, free markets minimise X-inefficiency or unnecessarily high cost outputs as well as ensure consumer sovereignty (Glennerster, 2003: 17). So, market supporters argue that market provision is more efficient than the state system because in public provision bureaucrats have no incentive to reducing cost and consumers do not have to restrict their demand (Johnson, 1999: 107). In addition, there is an assumption that market competition allows an improvement in the overall social service delivery system as well as a higher quality of service to consumers. Even some welfare pluralists like Hadley and Hatch (1981), who have reluctant attitudes toward commercial sector, admit the function of the commercial sector as a 'safeguard' to maintain the quality of social services.

However, some sceptical questions arise about the nature of market provisions. It is the purchasing power that determines the range of choice in the market, and markets respond to demands, rather than needs (Mayo, 1994; Johnson, 1993; Walker, 1993). In other words, enhancing consumer choice through markets reflects the financial capability of individuals and, therefore, it nurtures inequality. This point is supported by the fact that most benefits of tax expenditure and credit subsidies for housing and child care, American alternatives to direct services and provisions, have ascribed to middle class and higher class (Gilbert & Gilbert, 1989; Gilbert 1993). Moreover, the existence of competition *per se* does not necessarily mean higher quality and, moreover, there is no sufficient evidence that market services are more efficient than services from other sectors¹² (Mayo, 1994).

¹² Most inter-sectoral studies on health services in the US show that, if one considers only costs, for-profit hospitals are more efficient (Gilbert and Tang, 1995: 211-214). Some empirical studies in the UK also indicate that for-profit agents provide nursing and residential home services at a low price (Judge and Knapp, 1985; Biggs, 1986; recited from Johnson, 1999: 98). However, these cheaper services can be provided at the expense of the quality of service and/or the labour conditions of service workers. Despite its theoretical robustness, the claim that market provisions are more efficient than those of other sectors in

The Enterprise Sector

Regarding enterprise welfare, two definitional issues can be raised. One is why 'enterprise welfare' is used rather than 'occupational welfare', and the other is why the enterprise sector should be distinguished from the market sector. First, the subsequent use of the term 'enterprise welfare' in the research. Basically, the actual programmes of occupational welfare and enterprise welfare are not different, and both terms have often been used interchangeably. However, strictly speaking, occupational welfare has a wider meaning than that of enterprise welfare. The notion of enterprise welfare only identifies the benefits or programmes implemented through enterprises (either through direct operation or by contracting-out) and mostly by employers' contribution. As Johnson says, however, occupational welfare schemes have been and can be initiated not only by employers, but also by trade unions and professional associations (Johnson, 1987: 137). In this respect, whereas the term 'occupational welfare' is a prevailing one in Western welfare states, which have the institutional legacies of guilds, trade unions and mutual aid associations, the term 'enterprise welfare' is more popular in East Asian countries like Korea and Japan. Since enterprise welfare is the only *de facto* form of occupational welfare and, therefore, is more familiar terminology in Korea (and Japan), this term is subsequently used throughout the research.

On the other hand, most literature on the welfare mix classifies enterprise welfare (mostly defined as occupational welfare) as part of the market sector (Esping-Andersen, 1990, 1996 and 1999; Johnson, 1987, 1999; Rose, 1985b; K.Z. Hong, 1999) because it reflects the position of the labour 'market' and its suppliers are for-profit companies that cannot be disassociated from the market. However, enterprise welfare should be distinguished from the market sector because it does not always follow market principles. First, enterprise welfare has different determinants than those of wage. Whereas wage is a variable cost determined by working hours, enterprise welfare (as a kind of non-wage labour cost) should be regarded as the quasi-fixed or fixed cost determined by the number of workers (Ehrenberg and Smith, 1991: 145-146). Various enterprise welfare programmes are provided whether or not workers are employed, and in this respect the level of benefit is less related to productivity differences between

social services seems to lack an empirical basis. In this respect, Johnson (1999: 107) comments that in reality, very often the debates on welfare markets are based on ideology rather than empirical evidence.

workers. The benefit principle of enterprise welfare is employment status, rather than a for-profit motivation. Secondly, the finance and regulatory structures are different from those in the market sector (see Table 2.3). The finance of enterprise welfare comes almost exclusively from employers and substantial parts of voluntary enterprise welfare programmes are negotiated by collective bargaining between labour and business. Thirdly, the neo-classical assumption that independent labour suppliers and demanders exchange their labour force and wage in the labour market in a period unit, is unrealistic. Suppliers and demanders make long-term, rather than short-term, contracts through firms that consist of very complex hierarchical organisations and decision-making processes. The complicated relations intermediated through organisation mean that compensation to workers is not solely determined by their marginal productivity since those relations imply attributes that can not translated into a supply and demand relationship (Milgrom & Roberts, 1992; recited from K.Z. Hong, 1996: 186). In other words, enterprise welfare is not so much a direct compensation at the expense of supplying labour as an outcome of a firm's strategic considerations, either for the retention of skilled labour or for the curtailment of transaction costs. Aside from the intra-organisational features of firms (K.Z. Hong, 1996), there are other explanations for the development of enterprise welfare, such as role of the state, political economy and cultural approaches (Y.H. Cho, 1996; Choi, 1992; Esping-Andersen, 1996b; M.K. Lee, 1997; J.S. Park, 1996; C. Park, 1997; Song, 1994, 1995).

By and large, enterprise welfare can be divided into two types; mandatory and voluntary benefits. The former, mandatory type of the enterprise welfare is mandated by the state through its legislation processes, not determined by the market principles of supply and demand. Many welfare states have levied responsibility for providing welfare provision to employers – most notably within incapacity-related benefits (sickness, disability and benefits related to occupational injuries and accidents) and employment based pension contributions in many OECD countries (Adema, 2001: 11). In case of the latter type, employers provide enterprise welfare benefits voluntarily or according to collective agreements with trade unions. Enterprise welfare benefits are affected by a political concern to maintain industrial peace and the general economic conditions, than by the productivity of workers. The level of enterprise welfare benefits neither depends on the purchasing power, nor the benefits that accompany monetary exchange. Instead it depends on the financial capability of employers. So if their

employment status is the same, the generosity of enterprise welfare benefits provided by each workplace is likely to be determined by the size and/or payment ability of the firms that they are employed in. Therefore, like market provision, enterprise welfare is likely to nurture inequality among workers, especially between workers in small and large workplaces.

The Third Sector

It is very difficult to provide a universal definition of the third sector. In the US, the third sector organisations are usually defined, in terms of their tax relationship with the government, as organisations that do not seek profits are exempt from paying Federal corporate tax (Rose-Ackerman, 1986; James, 1990; Salamon, 1995). Accordingly, Non-profit organisation is the most frequently used terminology within the American context. Although the non-profit feature can also be found, the terminology of NPO, based on the US tax system, is not suitable within the European context. There are many non-associational organisations like cooperatives and self-help groups that cannot be explained by the taxation relation. So many European scholars indicate that the definition should be different from one country to another, by their own historical and societal tradition, although the third sector tends to be explained in context of a civil society (Evers, 1993, 1995; Svetlik, 1993; Pestoff, 1998; Kendall, 2000). After all, a definition of the third sector is highly dependent upon its relationship with other sectors. Generally speaking, the third sector can be distinguished from the market in terms of its non-profit features and from the informal sector in terms of its formal organisational features.

Regardless of the definitional problems, the third sector has drawn a great of research attention, as it is viewed as a vital sector in restructuring the overall welfare system. Sometimes, the third sector has been located in the 'tension field' between the state, market and informal sector, and it is assumed that it takes not only roles of intermediating and coordinating different sectors, but also a crucial role in overcoming the problems of the traditional welfare state model (Evers, 1993, 1995; Pestoff, 1998). As the state has withdrawn from its role as a direct service provider and newly rising needs have emerged, the third sector has expanded its service-providing role under the

finance and regulatory role of the government. The third sector has also played an important role in advocacy and campaigning (Kramer, 1981; Johnson, 1999: 187-93).

Nonetheless, the capability (or feasibility) of the third sector has been continuously regarded as doubtful. According to Johnson (1993), the voluntary sector has problems inherent to its nature; namely, fragmentation, uneven and incomplete coverage, inequity and accountability. Moreover, the third sector is dependent upon finance from government subsidiaries (Salamon, 1989), and could threaten the autonomy of voluntary organisations which are under substantial regulation by the government. This could ultimately damage the comparative advantage of the third sector, i.e. flexibility and responsiveness, especially if market principles permeate to the overall social service delivery system, in the form of the quasi-markets, contracting-out and competitive tendering not only amongst non-profit providers but also between profit and non-profit providers. Under these circumstances, higher concern for business management skills and competition for government funding have become unavoidable and have brought about the standardisation of social services (Ascoli and Ranci, 2002; Ascoli, 2002). As a result, the advantages of the third sector – namely, flexibility, responsiveness and variety – have all begun to fade.

The Family

Different from other sectors, welfare provision by the family is based on informal motivations like affection, reciprocity and obligation. For example, Horrell (1991: 220) indicates that unpaid housework is minimally affected by wage variables or time spent in paid work; instead, cultural and social norms would appear to have a greater explanatory power. Most empirical studies of the perceptions of informal carers have reported that ‘the obligation to care exists, but is limited, complex and ambiguous’ (Elliot, 1996: 128). According to Twigg and Atkin (1995), the provision of informal care often seems inconsistent. They argue that, aside from those structural variables like gender, age, class and race, there are subjective factors that affect caring provision including the attitudes of carer, i.e., carers’ attitude and perception of the caring role and the cared for. Similarly, Finch and Mason (1999) show that the normative feature of informal care is complex and is subject to personal interpretation. Moreover, the

prevalence of informal welfare provision in East Asian countries has tended to be explained by such norms as familism and filial piety originating from Confucian culture. For example, filial piety in Korea can be characterised as unconditional and self-sacrificing behaviour and, therefore, the direction of transfer is one-way rather than a basic mutual support (Lee and Sung, 1996, 1997; Sung, 1994). Adult children support their parents on the basis of filial piety even if the children's situation is very difficult. The children restrict their needs and consumption and, instead, provide income transfers to their parents. They want to spend their resources on their parents rather than on themselves.

However, internal pressures such as ageing populations, the higher participation of women, an increasing divorce rate and single-parent households may have seriously eroded the basic conditions affecting the family's capacity to provide welfare goods, whereas exactly the same factors have multiplied the welfare needs of the family. Although its importance has faded, the family is still one of the most important welfare providers for people across the world. This is particularly true in Korea where inter-generational private transfers are one of the most important income sources for not only the elderly who have retired but also the young adults who have not yet entered the labour market. Furthermore, in Korea, as we shall see in Chapter 6, households where the elderly live with their adult children are still common and many adult children live adjacently to care for their elderly parents. In this respect, the strong familial tradition has been cited as one of the most outstanding features of the welfare system in East-Asian countries (Esping-Andersen, 1997; Goodman and Peng, 1996; Gough, 2001; Kwon, H.J., 2001). The importance of the family can be especially stressed in terms of services and caring. The family remains the most fundamental unit to provide care and services to children, patients, the disabled and aged. Informal caring not only requires the direct physical and mental labour of care-givers, but is accompanied by opportunity costs (see Table 2.4). Since women have most often fulfilled this caring and service role, the issue of inequality is raised at the same time. The inequality regarding family service provisions is not confined to the gender inequality, but also the inequality between the caregiver and receiver, and between different classes among women.

2.4. Conclusion

Most welfare mix ‘models’ have failed either to identify the welfare mix in the context of a causal relation or included all the crucial components constituting the welfare mix. Although there have been some pioneering efforts to explain the welfare mix through the dynamics within a civil society or via the government (Evers, 1993, 1995; Pestoff, 1998), their purpose seems to proclaim the importance and potential of the third sector, rather than to explain the whole structure and dynamics of the welfare mix. This purpose tends to lead their analyses not only to be static, normative and descriptive depictions, but also gives a romantic view on the issue, i.e., the expansion of the third sector would solve the current welfare state’s problems. So there is a paradox in the existing research on the welfare mix; many studies have discussed the welfare mix but most of them have focused on separate sectors, rather than considered the whole picture with the welfare mix as the dependent variable.

Removing embedded preference or dominance to a specific sector, this research attempts to operationalise ‘the welfare mix’ in Korea, as a dependent variable, and to explain its changes with the independent variables. To do so, it is necessary to, first, suggest a new welfare mix model, the welfare pentagon, to identify all the components of the welfare mix together and, second, to construct a theoretical framework for explaining the changes and dynamics of the welfare mix using variables such as the changing environments and domestic political processes. In this chapter, I suggested a welfare mix pentagon model to deal with the first task. The second task will be passed over to the next chapter.

CHAPTER 3. ENVIRONMENTAL FACTORS, POLITICAL INSTITUTIONS AND WELFARE POLITICS

Whereas I examined the welfare mix approach as the dependent variable of the research, the purpose of this chapter is to define independent variables and to construct a theoretical framework for the research. First of all, the following section defines two sets of environmental factors; i.e. external forces and internal pressures. While external forces outside the border of nation states have been called ‘globalisation’, factors such as the population ageing, the changing employment structure of the service sector and the radical transformation of household and family structures can be summarised as ‘post-industrial’ pressures that have taken place within domestic spheres. Although globalisation and post-industrialisation can be defined as the environmental factors that shape general constraints over advanced welfare states, there have been strong arguments stating that their impact on social welfare systems are contingent or diverged according to the domestic political institutions each country. The second section deals with the very theories and related discussions, which put emphasis on the importance of democratic political institutions and welfare state structures (institutional legacies of the welfare state), especially in the context of the changing environments stated above. Finally, based on these theoretical reviews, I shall develop an analytical framework for the research in the third section; i.e., the research model to explain how environmental factors and national political institutions have influenced the changes in the welfare mix and through which policy processes. Here, I shall briefly define the components of the research model.

3.1. Changing Environments and the Welfare State

3.1.1. External Forces: Globalisation

Set aside from its reality and preciseness, usage of the term ‘globalisation’ has extended to apply to economic, political, social and cultural spheres. World society theory, for example, understands globalisation as a comprehensive concept not limited to only the economic sphere but also to including politics, law, education, science, culture and so on – thus applying to virtually all components of everyday life (Meyer et al, 1997). Despite its expansive implication, globalisation is fundamentally seen as an economic phenomenon because other types of globalisation are regarded as the derivatives caused by and therefore following economic globalisation. In other words, economic globalisation forms the basis of political and socio-cultural globalisation. In this respect, although some stress is put upon the political and ideological meanings of globalisation (Mishra, 1999), many scholars of the welfare state tend to focus on the features of economic globalisation, especially the international mobility of capital (Hirst and Thompson, 1999; Scharpf and Schmidt, 2000; Esping-Andersen, 1996a, 1999; Garrett, 1998; Swank, 2002). This research sees globalisation only within economic and political terms because the socio-cultural aspect of globalisation is often vague and therefore hard to be analysed within social policy studies.

Economic Globalisation

Economic globalisation primarily stresses the unprecedented integration of the world economy in terms of trade in goods and services, capital mobility and the internationalisation of production systems due to the rapid development of micro-electronics, telecommunications and computing technologies (Yeates, 2001: chapter 2). The global integration of financial markets and international capital mobility form the two most pertinent features of economic globalisation. As seen in Table 3.1, the growing rate of world FDI inflows has far exceeded the levels of world trade and output. Really, there has been a dramatic increase in capital mobility in terms of the flows of FDI. Increased capital mobility has occurred due to the fact that most capital control

mechanisms had been dismantled before the early 1990s. Under such conditions, the process of economic globalisation has given capital a relatively superior position vis-à-vis the state and labour because it has guaranteed the international mobility of capital (Mishra, 1999: 6). In other words, the international mobility of capital – the so-called ‘exit’ option – has strengthened the structural power of capital (Gough and Fansworth, 2000). At the same time, the trends in capital mobility and the enhanced structural power of capital reflect the erosion of Keynesianism i.e. the weakened capability of macroeconomic management of nation states. Now capital return is not decided by the domestic interest rate of a nation but instead by global competition to induce foreign capital (Scharf and Schmidt, 2000:5). To build favourable conditions to attract capital, nations have had to accept significant erosion of their policy instruments including regulation, taxation and public expenditure.

Table 3.1. Economic globalisation: FDI inflow, world output and world exports
(Billion U.S. dollars, ratio)

	1970	1980	1985	1990	1995	2000	1980s/ 1970s	1990s/ 1980s
A. FDI Inflows	7	52	56	204	322	1,377	4.5	4.8
B. World Exports	309	1,960	1,894	3,414	5,035	6,252	2.3	2.1
C. World Output	-	11,704	12,804	22,558	29,112	31,377	1.6	1.8
A/C (%)	-	0.4	0.4	0.9	1.1	4.4	-	-
B/C (%)	-	16.7	14.8	15.1	17.3	19.9	-	-

Source: Reorganised from Wong and Adams, 2002: Table.1.

In this context, economic globalisation is said to have changed the basic assumptions of the Keynesian welfare state and to have curtailed viable social policy options (Mishra, 1999; Scharpf, 2000a; Strange, 1996). Problems including unemployment, inequality and increased fiscal constraints on governments have been regarded as resulting from a process of economic globalisation. The internationalisation of capital markets has reduced the capacity of government’s macroeconomic management, the increase of transnational transfer of capital has empowered its structural power vis-à-vis state and labour and the exposure to wage compression from NICs has deepened the inequality structure as well as chronic unemployment. This provides the context for the ‘downward convergence’ hypothesis whereby states are

forced to adapt similar policies towards 'social dumping' or a 'race to the bottom' to the lowest level of social welfare, i.e. neo-liberal welfare state (Cerny, 1996; Gill and Law, 1988; McKenzie and Lee, 1991; Sinn, 1993; Tanzi, 1995; Strange, 1996). Under the fierce competition caused by attempts to induce capital, governments tend to abandon the comprehensive welfare state and redistributive policies that inevitably cause the higher taxation and labour costs. Instead, states implement neo-liberal policies such as deregulation, marketisation and privatisation.

However, the arguments for economic globalisation so far are faced with the three following counter arguments. The first counter argument is that, with regard to economic integration, the current state of the international economy is by no means unprecedented nor irreversible (Hirst and Thompson, 1999; Weiss, 1997). Rather, the present world economy is less open and capital is less mobile than during the international economic regime between 1870 and 1914. The second counter argument concerns the geographical scope of globalisation. Even if the present state of the international economy can be said as (economic) globalisation, the scope of globalisation has been limited to a few geographical regions – North America, Western Europe and Japan – but most of the rest of the world has been excluded from economic globalisation. In this respect, the present state of world economy is not so much globalisation as 'Triadisation', coupled with the 'de-linking' of many developing countries from the most developed regions (Petrella, 1996: 77-78; also see Appendix Table 1-1 and 1-2). The third counter argument challenges economic-centred explanations. As we shall discuss below, the impact of economic globalisation is not uniform across countries but instead it is diverse according to the domestic institutions of nation states. In this respect, politics matters and past institutional legacies are crucial if looking to understand national adaptations to the global economy (Esping-Andersen, 1996a; Garrettt, 1998; Rhodes, 1996, Scharpf, 2000a, 2000b; Swank, 1998, 2002). Even though globalisation is important and different from the past internationalisation, it is not totally new, neither does it demand the withdrawal of the roles of nation states; rather it has raised the necessity of restructuring the roles of governments. Modern governments provide the basic conditions for competitiveness, for example, health, education, training, research, development policy and a social infrastructure (Boyer and Drache, 1996:4).

Political Globalisation

Political globalisation primarily refers to the intensified transnational nature of political interaction. Holton (1998:109) refers to it as ‘the changing global context of political awareness, processes and activity’. As the international economy has become increasingly integrated, there has been a growing awareness of social, economic and environmental issues becoming problems of an international nature. In this respect, International Governmental Organisations (hereafter, IGOs) have had an increased involvement in transnational policy coordination, national policy implementation and global resource (re)distribution¹ (Deacon et al, 1997: chap.3; George and Wilding, 2002: chap. 7 and 8; Yeates, 2000: chap.4). Most of all, the policy advice of major IGOs – such as the World Bank (WB), the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), World Trade Organisation (WTO) and the International Labour Organisations (ILO) – has influenced the national policy making processes directly and/or indirectly. Their influences have been exerted not only through policy recommendation and advice, but also through the levying of sanctions and/or providing assistance in the form of aid and loans. The most outstanding examples of IGOs’ influences on national policies are the structural adjustment programmes of the IMF and the WB. Both institutions provide loans for economic structural adjustment to countries with payment difficulties. These loans, of course, are accompanied by social and economic conditionalities. The loan conditionalities require the beneficiary countries to pursue a socio-economic reform programme towards a free market economy, usually thus will include the currency devaluation, the removal of exchange rate and capital mobility control, the withdrawal of price and wage control, the privatisation of public enterprises and services, the deregulation of industry and industrial relations, increasing labour market flexibility, a reduction in public expenditure and cuts in social services (Lopes, 1999; Owoh, 1996). Although the WB provides loans which look to mitigate the adverse effects and

¹ Despite the growing importance of IGOs in international politics, it is pointed out that IGOs are fundamentally ‘inter-national’ rather than ‘trans-national’ organisations. It is still the case that nation states have sovereignty and dominate international politics. IGOs are limited to levying sanctions or other compulsive instruments to countries which do not implement international agreements (Yeates, 2000: chap.4). As economic globalisation is unlikely to drive out the role of the state *per se*, the higher influence of IGOs on national policies does not restrict the ability of states to exercise national sovereignty.

impoverishment caused by economic reform, there has been a great deal of criticism of the conditionality of Structural Adjustment Loans (SAL) because they have been said to be the main cause of impoverishment and political corruption in many countries (Ghai, 1991; Haggard and Kaufman, 1992; Rodrigeuz and Griffith-Jones, 1992; recited from Deacon et. al., 1997: 61). According to Chossudovsky (1997), 80 % of world population, or 4 billion people, are under the direct influence of SAPs.

On the other hand, some have argued about the positive impacts of global social policy or welfare globalism to national welfare states (Deacon, 1997), in terms of a spread of the Western welfare state model (policy learning) to welfare state laggards, non-Western nation states or newly emerging welfare states. For example, whereas the policy recommendations of the IMF, WB and OECD are based on a neoliberal conception of the welfare state, the ILO argues for fairly comprehensive social standards including the rights of association, a basic wage level (minimum wage), fair working conditions and equal rights for female and immigrant workers. In the laggard welfare states the ILO's standards have been the international pressure to improve their labour standards and social welfare system² (Strang and Chang, 1993; see also Abu Sharkh, 2002 for the impact of ILO standards in nations states across the world). For reformist or progressive politicians, the ILO's guidelines have been utilised as a type of 'international obligation' in order to continue social and labour reforms (Yeates, 2000: 74).

3.1.2. Internal Pressures: Post-Industrialisation

The change of environments surrounding social welfare systems is not confined to the external forces. Although the process of economic and political globalisation, based on the general logic of capital movement, has been recognised as the new grand variable to explain the recent development of welfare states, it is also true that globalisation theories have been subject to a lot of criticism. Some post-industrial theorists protest against the globalisation argument that globalisation caused higher pressure on the welfare state (Pierson, 1998, 2001a; Iversen and Wren, 1998; Iversen, 2001).

² Strang and Chang (1993: 259) argued that, 'the ILOs most concrete contributions to policy are seen in the laggard welfare states of the industrialised world. ... where welfare is politically viable but contested international standards most usefully amplify, legitimate and depoliticize policy options'.

According to them, it is the transformation of endogenous factors within nation states, rather than the exogenous variable called globalisation, that explains the most outstanding feature of recent welfare state development – i.e., the austerity agenda of welfare states. Empirically speaking, Iversen (2001) finds that there is little evidence to support the assertion that globalisation is a serious threat to the welfare state. When deindustrialisation variables are controlled, the correlation between trade openness and welfare spending disappears. Pierson (2001a: 81) indicates that the coincidence of welfare state austerity and global economy leads to a false perception of a casual relationship between them. If one argues ‘A caused B’, it implies that ‘if A had not occurred, B would not have occurred’ (Fearon, 1991; recited from Pierson, 1998: 541). However, he consequently asks, even if globalisation had not occurred, would the fiscal constraint of the welfare states not have occurred?

For post-industrial theorists, the nature of problems is derived from internal pressures; changes in employment structure to a service-based economy, welfare state maturation, an ageing population and the transformation of household structures (Pierson, 2001a:83). These four factors can be defined as the post-industrial pressures which primarily cause the ‘unprecedented budgetary stress’ upon the welfare state. These post-industrial transformations are internal in nature and happen within the borders of nation states. Some would argue that the first pressure is related to the global economy but Pierson protests that the impact of globalisation on the first force is at best modest whilst the other three do not relate to globalisation at all (*Ibid*). Unlike the dramatic transformation brought about by the globalisation process, post-industrial pressures are ‘slow-moving, undramatic’ but have ‘fundamental consequences over time’ (*Ibid*:94).

Among the four post-industrial pressures that Pierson defines, the research seeks three domestic transformations, excluding welfare state maturation, as purely socio-economic internal pressures that can be presumed as independent from the political and institutional features of a nation. Instead, the structural features of the welfare state or the mode of state’s regulation over social welfare is regarded as a sub-component of domestic political institutions which will be discussed in the following section, along with a discussion of other democratic political institutions. Let me start from the first socio-economic transformation, i.e. de-industrialisation.

De-industrialisation and Changes of Employment structure

The first post-industrial pressure came through a transformation of the employment structure coupled with a process of de-industrialisation from a manufacturing to a service based economy. Over the last 30 years, employment in manufacturing has seriously decreased in all OECD countries with a large proportion of new employment being created in the service sector. The overall production levels and therefore production related employment has remained stagnant at best (Scharpf, 2000a, 2000b). These trends can at least partly explain the chronic unemployment problem throughout Continental Europe. In Germany, France and, to a lesser extent, Italy, the fall in industry employment has not been cushioned by the creation of new jobs in the service sector. In these countries, the gap between industry based job losses and levels of job creation in the service sector is approximately 4-5% – this figure is similar to the increased unemployment rate during the same period (see Appendix Table 1-3).

The shift to a service-based economy³ coupled with the process of de-industrialisation has certain implications. First of all, the productivity gap between manufacturing and service sector has caused a deepening of income inequality. At the same time, the enlarged service sector is a reflection of a shift to the higher participation of women and the rising need for personal services. These pressures are closely related to other post-industrial pressures; particularly the ageing population and the transformation of household structures.

Ageing

Another important post-industrial pressure influencing the social welfare system is the issue of population ageing. Whilst the increase of the elderly has remained relatively steady in the major OECD countries except Japan during the last 40 years, it is projected that the trend will be quite different for the next 40 years; the ratio of the aged 65 or over will almost double (see Appendix Table 1-4). Japan and Italy are the most serious cases, not only in terms of the ratio of the aged to the entire population but also

³ For detailed discussions on the driving forces of the transformation of the employment structure, refer to Appendix 1.

in terms of its speed. Although the seriousness of the ageing problem varies across countries, the implications to social welfare systems are straightforward. First of all, the increase of the elderly causes higher social welfare demands; not only in terms of the number of recipients but also due to the increasing amount of time people are receiving benefits and services, especially in pension and health care. OECD projections until 2040 point out that population ageing alone will cause health and pension expenditure to double or even triple (OECD, 1994; recited from Esping-Andersen, 1996a: 7). In addition, as the number of the aged are increasing and they are getting much more older, they need more personal services.

Transformation of Household Structures

The last post-industrial pressure concerns the micro-foundation of human society, i.e., the transformation of family or, more correctly, household structures. The typical norm of a nuclear family, consisting of one male-breadwinner and housewife with 2 or 3 children, has been challenged and has already significantly disappeared; women do not stay at home any more, so do not bear enough children and, moreover, the basic norms of family are dissolving. These trends mean that the basic assumptions that sustain the modern welfare state have begun to collapse.

First of all, a full-time housewife is not the typical norm of a society any more. In all OECD countries there has been a dramatic increase in women's labour force participation although there is significant variance across countries (see Appendix Table 1-5). A possible implication of the higher participation of women is an acceleration in the process of family dissolution thus causing new social service needs. Furthermore, in many cases women have been suffering from a dual burden – a requirement for unpaid domestic work alongside paid labour (Gershuny et. al., 1991; UNDP, 1999; Ungerson, 1987). The dual burden of women is closely related to the low fertility trend.

Second, factors such as cultural change, developments in birth control methods and women's higher participation have accompanied a sharp fall in the total fertility rate (Pierson, 2001a: 96; Castles, 2003). The fall is especially noticeable in Germany, Japan, Italy and France – countries which Esping-Andersen (1990, 1999) classified as the Conservative regime (also see Appendix Table 1-6). Whilst social democratic Sweden

encourages working women to have children through comprehensive and universal public social services as does liberal America through active personal service markets. In Continental Europe (especially the Southern part) the lack of 'family-friendly' public policy or 'defamilisation' apparatus results in the 'low fertility equilibrium' (Castles, 2003; Esping-Andersen, 1999: chap.6).

Third, untypical forms of household such as single-parent households and people living alone are increasing rapidly. This can be understood as the process of family dissolution. The divorce rate across OECD countries excluding Italy, has increased dramatically; the average divorce rate in major OECD countries almost tripled between 1960 and 1995 (see Appendix Table 1-7). The high divorce rate, coupled with increasing numbers of unmarried mothers, has caused a dramatic rise in single-parent households. In the USA, the percentage of single-parent households out of all families with children rose from 9.1% in 1960 to 22.9% in 1988 whilst in Germany the share also rose from 8% in 1972 to 13.5% in 1988 (Pierson, 2001a: 97). It is now the case that single-person households are the fastest growing household type everywhere (*Ibid*: 98). This accompanied with a higher divorce rate and an increase in single-parent households, has caused a decline in average household size. It should again be noted that the dissolution of the family itself has not only created new welfare needs, but also restricted the capacity of the family to cope with the new risks caused by post-industrial pressures.

3.1.3. The Influences of Globalisation and Post-industrialisation on the Welfare Mix: Introduction to Functionalist Approaches and Critiques

So far, I have identified the external forces and internal pressures that could have been presumed to be having an influence on the social welfare system. Whereas globalisation has created new environments challenging the basic assumptions of traditional Keynesian welfare states, post-industrial forces can explain the current fiscal predicaments of modern, advanced welfare states. Although most of the discussions on globalisation and post-industrialisation have concentrated on the state sector, we could suggest that these internal and external forces also influence the other four sectors – the market, enterprise welfare, the third sector and the family. In order to bridge these

Table 3.2. Influences of External Forces and Internal Pressures on the Welfare Mix: 14 Functionalistic Hypotheses

	External Forces (G)	Internal Pressures (I)
State (S)	<p>1. (GS+) <i>Upward mobility</i>: higher exposure to globalisation induces bigger government to mitigate its dislocation.</p> <p>2. (GS–) <i>Downward convergence or social dumping hypothesis</i>: globalisation induces ‘race to bottom’ of state welfare and regulation.</p>	<p>3. (IS+) <i>Newly rising and diverse needs</i>, which cannot be coped with through traditional state programmes, requiring new institutions and an expansion of public social services.</p> <p>4. (IS–) <i>Austerity hypothesis</i>: despite diverse prescriptions, post-industrial pressures primarily require to take cost containment strategy, inevitably accompanied with reduction of state welfare, in restructuring welfare states.</p>
Market (M)	<p>5. (GM+) <i>Marketisation of welfare</i>: globalisation leads to permeation of market logic to social services and the rise of international welfare markets.</p>	<p>6. (IM+) <i>Expansion of service market</i>: post-industrial pressure expands the welfare service market on both supply and demand sides.</p>
Enterprise (E)	<p>7. (GE+) <i>Non-labour cost competitiveness</i>: enterprises accept high labour costs (including enterprise welfare) if higher productivity and stability of labour force are assured.</p> <p>8. (GE–) <i>Labour cost competitiveness</i>: worldwide competition forces firms to reduce labour costs, hence enterprise welfare cut.</p>	<p>9. (IE–) <i>Inferior service/irregular employment</i>: workers in service sector not only receive less enterprise welfare but also have a weaker bargaining power. Hence, the inequality of enterprise welfare.</p>
Third Sector (T)	<p>10. (GT+) <i>Resistance and compromise</i>: higher involvement of NGOs or INGOs in voice (resistant global networking against globalisation) and welfare provision (co-operation with IGOs’ projects)</p>	<p>11. (IT+) <i>Expansion of civil society</i>: post-industrial pressures not only induce the higher involvement of NGOs in voice and service provision, but also increase employment of civil society.</p>
Family (F)	<p>12. (GF+) <i>Increasing burden</i>: growing economic and emotional vulnerability of individuals needs for more family support</p> <p>13. (GF–) <i>Dual burden of women</i>: globalisation encourages women’s participation and discourages non-remunerative care mechanism. These reduce the capacity of the family but also leads to a dual burden for women.</p>	<p>14. (IF–) <i>Less capacity of family</i>: women’s higher participation and family dissolution reduce the caring capability of households.</p>

Note: the influence of external forces (globalisation) G or internal pressures I on each sector’s welfare provision (S, M, E, N or F) can be either positive (+) or negative (-). For example, ‘GS+’ means the impact of globalisation on state welfare is positive.

forces with the welfare mix structure, inspired by theoretical works, I have developed 14 possible hypotheses that attempt to explain the impacts of external and internal environments on each of the five sectors of the welfare mix in Appendix 2 (see also Table 3.2 for the summary).

The hypotheses indicate that we cannot generalise the impacts of external and internal environments on the welfare mix in only one direction. I can hypothesise only positive influences on the market (*Marketisation of welfare* (GM+)) and *Expansion of service market* hypothesis (IM+)) and the third sector (*Resistance and compromise* (GT+)) and *Expansion of civil society* hypothesis (IT+)). Concerning the impact of globalisation on the state sector, however, the *Upward mobility* (GS+) hypothesis suggests that higher exposure to the global economy would induce bigger government to mitigate its dislocation, but the *Downward convergence* or *Social dumping hypothesis* (GS-) strongly holds that globalisation leads to a ‘race to the bottom’ in welfare states. In the case of post-industrialisation, some would argue that *Newly rising and diverse needs* (IS+), which cannot be coped with through traditional state programmes, require the expansion of public social services, but the *Austerity hypothesis* (IS-) emphasises that post-industrial pressures primarily require the state to contain costs, inevitably accompanied by a reduction of state welfare. The dominant view on enterprise welfare (*Labour cost competitiveness* and *Inferior service/irregular employment* hypothesis) seems to focus on the negative influences of both globalisation and post-industrialisation, but it is also possible to suggest *Non-labour cost competitiveness* hypothesis (GE+) that enterprises would accept high labour costs (so high level of the enterprise welfare) if higher productivity and stability of labour force are assured. Similarly, both the *Dual burden of women* (GF-) and the *Less capacity of family* (IF-) hypotheses predict a negative impact on the family provisions, but the *Increasing burden* hypothesis (GF+) supposes that people would depend more on the family’s support when globalisation generates a growing economic and emotional vulnerability of individuals.

Although the impacts of globalisation and post-industrialisation on five sectors of the welfare mix are basically interwoven and, therefore, it is very difficult to empirically extract the pure effects of the hypothesis, they can be understood as theoretical efforts to construct ideal types on the impacts of the environmental factors. Nonetheless, these hypotheses have the important theoretical implication that the

impacts of environments are not restricted to the welfare 'state' but can be widened to the broader welfare mix. However, they are all critically functionalistic since the environments are presumed as the forces that inevitably and automatically influence the changes of welfare mix structure. They do not consider the role of political factors in these casual relationships. So they not only neglect the importance of national politics, but also overlook the social policy processes whereby environments are intermediated by domestic institutions. In reality, as many have argued, the influences of external and internal environments are diverse according to domestic institutions and national politics (Garrettt, 1998; Swank 2002; Iversen and Wren, 1998; Pierson, 2000a). Here it is necessary for us to set up these second, but more important, set of independent variables of the research; i.e., institutions and politics. This is the task of the following section.

3.2. Political Institutions and Welfare Politics⁴

3.2.1. Democratic Political Institutions and the Welfare State: Democratisation, Partisan Politics and Social Corporatist Institutions

Undoubtedly, the pivotal foundation of domestic political institutions in advanced economies is democracy. This is not the place for discussing theories of democracy, but we need to start our discussion from the relationship between democracy and the development of the welfare state. In spite of the existence of numerous competing arguments on the expansion of the welfare state, the establishment of mass democracy, by and large, has been regarded as a necessary condition for welfare state development,

⁴ I do not try to construct 'hypotheses' between political-institutional variables and the welfare mix because of the additional complexity involved. Different from the position that emphasises the impact of grand variables like globalisation and post-industrialisation in the development of the welfare state in order to extract common and general trends across OECD nations, the political and institutional approach attempts to explain why the responses of different welfare states to the common challenges have been so diverse. Whereas the former can identify relatively evident causal relationship between the environmental transformations and the welfare state, the latter focuses upon the policy processes and dynamics of different routes of welfare state development. In this respect, the political-institutional approach has been used to construct middle range theories, which can be applied to small N.

even though it cannot be a sufficient condition. The evolution of mass democracy, based on the expansion of suffrage to the working class (universal suffrage), has shaped the basic institutional opportunities for the working of 'politics against markets' (Esping-Andersen, 1985) or the establishment of social rights (Marshall, 1963) in the last Century, especially since the Second World War. In this respect, the welfare state means democratically managed capitalism and, for Marshall (1972), it is defined as 'democratic-welfare-capitalism'. Even Flora and Heidenheimer, the most famous and most representative of modernist theorists, put an emphasis on the importance of democracy as follows;

The real beginning of the modern welfare state, however, had to await the transformation of the absolutist state into mass democracy in the last third of the nineteenth century, after a variable intermediary period of liberal democracy with restricted suffrage. In thus linking welfare state development with evolution of mass democracy, one may interpret the welfare state as an answer to increasing demands for socio-economic equality or as institutionalisation of social rights relative to the development of civil and political rights. (1981: 22)

The establishment of mass democracy is a crucial precondition for welfare state development in most political theories including power resource theory (Castles, 1978; Stephens, 1979; Korpi, 1983, 1989; Esping-Andersen, 1985), pluralist political theory (Pampel and Williamson, 1989) and Christian democracy (Kersbergen, 1995). First of all, pluralist political theory pays attention to the competition between diverse interests groups around the distribution of socially scarce resources. Basically, politicians are very sensitive to election results and have to accept the requests of the specific interest groups with strong political power. In this respect, the expansions in public expenditure can be understood as an outcome caused by the competition amongst politicians and political parties to gain votes. As a result, an institutionalised exchange between votes and public expenditures occurs in liberal democracies. The pluralist approach to welfare politics is more suitable to explain the expansion of social expenditure in more pluralized welfare states, notably in the US where partisan politics are reflected beyond class structures. On the other hand, power resource theory focuses on the power of mobilised labour in a parliamentary democracy as the main driving force of the welfare state development. According to Korpi (1989), whereas the main power resource of

capital originated from the possession of the means of production in the economic domain, have-nots can mobilise their political power through democratic institutions in the political arena. It was possible for leftist parties representing the interests of the working class to get power through democratic institutions and procedures and to implement reformative social policy against the general interests of the capital (Pzeworski, 1990:1-2; Mishra, 1990: 10-11). So the welfare state can be regarded as the compromise of structural conflicts between the democratic state and the capitalist economy, or the outcome of institutionalised class conflicts between the logic of the market and politics (Esping-Andersen, 1985). This theory seems particularly true when explaining the large welfare states in Scandinavia with highly mobilised trade unions and a strong Social Democratic party involved in partisan politics (Castles, 1978; Stephen, 1979; Korpi, 1983). However, both approaches have some difficulty when looking to widen the analytical focus to the development of Corporatist-conservative welfare states in Continental Europe. It has been the Christian Democratic and other conservative political parties that introduced social insurance legislation at the initial stage of welfare state development and that have dominated partisan politics for welfare state expansion (Rimlinger, 1971; Baldwin, 1990; Esping-Andersen, 1990; Kersbergen, 1995), even though the influence of leftist parties has been relatively more significant than those of their liberal welfare states counterparts. In this case, the expansion of welfare state institutions, mainly income-related and occupationally segmented social insurance, could have gained a broader inter-class coalition between the middle and working classes⁵.

In any case, it is a likely assertion that democratic political institutions based on mass or parliamentary democracy have been the strong basis on which the welfare state has developed. At the same time, the expansion of social rights can be understood as a consolidation of democracy by compensating for the socio-economic inequality of those who failed in the market (Linz and Stephen, 1996: 17-26). Such selective affinity between the welfare state and democratic institutions is not restricted to partisan politics within parliamentary democracy, but is also founded in the social or 'democratic'

⁵ Regarding this, Wilensky (1981) found a strong relation between the Catholic party and social welfare efforts, and explains it as 1) Catholic parties are supported by various classes and groups, 2) reflection that social expenditures increased much more when the competition between Catholic parties and leftist parties was fierce.

corporatism within macro social and economic policy consultations among peak associations.

Despite contesting arguments on the definition of corporatism⁶, the relevance of corporatism in the context of welfare state development can be found in the more sophisticated definition by Schmitter (1974) and Lehmbruch (1979). First of all, Schmitter contrasts corporatism with pluralism by defining it as a mode of interest representation (1974) or interest intermediation (1979). For him, corporatism has distinctive features⁷ like a limited number of interest groups, compulsive membership, non-competition, and a hierarchical organisational structure. Each interest group can secure their monopolistic representativeness by gaining acknowledgement by the state. With regards to the role of the state in the interest intermediation system, he divided corporatism into societal corporatism where the autonomy of interest groups is guaranteed and state corporatism where they are subordinate and run from above by the political and coercive power of the authoritarian state. Whereas the former is working within democratic welfare state in advanced capitalist societies, the latter can be found in authoritarian and neo-mercantile states in less-developed societies (Schmitter, 1974: 20-22). On the other hand, Lehmbruch (1979) defines the New corporatism⁸ as a mode of policy consultation among state and peak organisations of labour and capital that are mobilised on a large scale. The peak organisations collaborate with the government to form and implement comprehensive public policies and, most of all, a consensual income policy is regarded as the core part of corporatist policy consultation.

Democratic social corporatism is based on the principles of compromise and harmony among major social groups, rather than competition and conflicts among differentiated interest groups. Regarding this, Katzenstein (1984: 26-32) defines the three main features of democratic corporatism as follows; first, it is the ideology of a nation-wide social partnership; second, interest groups have relatively centralised organisational structures; and third, it facilitates to intermediate conflicts through

⁶ As a matter of fact, the history of corporatism is as long as Western history itself, originated from Greek and Latin traditions, and there have been numerous sociological and political thoughts concerning it (Wiarda, 1981). However, since this research does not seek to deal with the history and development of corporatism literatures, the main discussions on corporatism are restricted to the relevance of social or democratic corporatism to welfare state development in post-war Europe.

⁷ They are opposite to the main components of pluralist political theories like the existence of numerous interest groups, voluntary membership and competition among groups.

⁸ He calls it 'liberal corporatism' as the new type of corporatism in the post-war era, which is neither the traditional corporatism of pre-modern European societies nor the authoritarian one of Fascist regimes.

centralised voluntary and informal policy consultations and compromise among bureaucrats, interest groups and political parties. Such a centralised policy making structure based on democratic principles makes it possible to integrate social policy with overall macro-economic policy with a wide consent base among different class and interest groups, and to achieve both political stability and good economic performance. Garrettt and Lange (1986) conclude that, for example, countries implementing corporatist apparatus recorded higher economic outcomes and a better risk management capability over economic crisis. What is more important in the context of the research is that democratic corporatist institutions have been indicated to be the main factor driving the welfare state development in many European countries. Wilensky (1981) found that resistance against the expansion of social welfare expenditures and taxation was much lower in those countries that had strong corporatist institutions. Schmidt (1985) also concludes in his study on OECD nations that corporatism is strongly related to such socio-economic performances as the stability of the labour market, low unemployment and the expansion of comprehensive social welfare institutions. Similarly, Katzenstein (1985) indicates the importance of democratic corporatism in the small countries of Europe in explaining why those countries with higher trade openness have larger government. In the case of Mishra (1984, 1986), pluralist-corporatist dichotomy is the crucial standard in his typology of welfare states. In integrated or corporatist welfare states like Austria and Sweden, opposite to differentiated or pluralist welfare states like the UK, social policy is fundamentally integrated in economic policy and *vice versa*; so the issue of production cannot be separated from that of distribution, and both issues are dealt with through centralised corporatist decision-making processes. As a result, corporatist welfare states can better protect their welfare system than their pluralist counterparts.

To sum up, it has been possible for democratic corporatist welfare states to achieve both better economic performance, and sustain and in some cases even expand their comprehensive social welfare institutions, particularly in times of economic crisis or recession. Centralised bargaining among peak associations covering most social classes and groups could produce a policy package based on social consent. However, similar to the power resource model, strong trade unionism seems a vital component in the working of democratic corporatism because tripartite policy consultations among state, labour and capital as equal actors should presuppose the equal or equivalent power

of labour vis-à-vis capital. However, changing environments – both external (economic globalisation) and internal (post-industrialisation) – have weakened the power of mobilised labour and it is again likely to threaten the viability of both social democratic partisan politics and democratic corporatism in advanced economies. But, is it all? Now, let me turn to more recent discussions of the role of political institutions in the era of welfare state reforms within changing environments.

3.2.2. Political Institutions, Welfare State Structures and Welfare Politics in Changing Environments: Path Dependent Routes?

As depicted in the preceding section 3.1, it seems evident that contemporary advanced welfare states are facing unprecedented challenges from both external forces (globalisation) and internal pressures (post-industrialisation or domestic socio-economic transformations). Although it is possible to conceptually divide the external and internal factors, both factors, have occurred coincidentally and have often been interwoven since the 1970s. Such environmental factors are likely to restrict the capacity of the traditional welfare state model, and to require many welfare states to adapt to new environments. Frequently, there have been strong arguments stating that economic globalisation has caused the declining capacity of democratic institutions. The international mobility of capital would restrict the capability of Left governments to implement progressive pro-welfare policies and, ultimately, weaken the viability of social democratic alternatives (Mishra, 1996). More fundamentally, the ‘exit’ option of capital has weakened the power resource of labour whereas the structural power of capital has been consolidated, and as a result social corporatist institutions and trade unionism have seriously deteriorated (Kurzer, 1993; Mishra, 1993). Moreover, post-industrial pressures have caused severe fiscal stress on the welfare state. However, the direction of the impacts of environmental factors has not simply been negative, i.e., the retrenchment of welfare state programmes. Many have indicated that the speed and degree of either globalisation or post-industrialisation, or both, have varied greatly across countries and national politics still matters in the adaptation to new environments as the processes of the welfare state expansion did; their impact on the social welfare institutions have been by no means uniform nor general, but diverse and specific according to the domestic

politics and policy legacies of a nation (Bonoli, 2001; Esping-Andersen, 1996a; Garrett, 1998; Pierson, 1998, 2001a, 2001b; Rhodes, 1996, 2001; Iversen and Wren, 1998; Iversen, 2001; Scharpf, 2000a, 2000b; Swank, 2001, 2002). In other words, it is the diversity of national political institutions that can explain why different welfare states have revealed such divergent responses to common phenomena.

Most research that put emphases on the importance of domestic institutional features has heavily depended on the approach of new institutionalism, specifically historical institutionalism, which attempts to explain the differences of policy between countries in spite of similar policy issues (Thelen and Steinmo, 1992: 5-6). By and large, among the main arguments of historical institutionalism, the following three points seem valid when analysing the diverse policy responses of different welfare states. The first point is the importance of structures or institutions. In historical institutionalism, political institutions not only restrict the government's policy capacities and political actors' behaviour but also influence the formation of actors' interests or preferences (Hall, 1986: 19; Pontusson, 1995: 118-9). In this respect, Swank (2002: 34-5) argues that political institutions and welfare state structures not only influence 'the political capacities of pro-welfare state interests', but also promote 'distinct clusters of values, norms and behaviours that either favor or disfavor neoliberal reforms'.

The second focus is to put an emphasis on the importance of the history and context. Institutional features are by no means the sole determinants to explain policy outcomes, neither does it deny the importance of such variables as socio-economic development, ideas, distribution of power, class structures and group dynamics (Y.S. Ha, 1999: 20-1). What historical institutionalism puts an emphasis on is the historical context within which those variables interact and how institutions structure political interactions (Thelen and Steinmo, 1992: 12-3). In this respect, historical institutionalism attempts to play the role of a bridge between state-centred and society-centred approaches, by focusing on the institutional features that structure relations between the state and society. Although historical institutionalism emphasises institutions and the relative autonomic role of the state, it does not miss the importance of the welfare politics among social groups. So political coalitions and partisan politics remain pivotal in analysing the cross-national diversity of welfare state policies under the changing environments (Garrett, 1998; Iversen, 2001; Pierson, 1994, 2001b; Scharf and Schmidt,

2000), along with the state's essential role in constructing or revitalising social pact politics in situations of crisis (Rhodes, 2001).

The last important focus of historical institutionalism is to attach importance to the continuation and the path-dependent change of institutions, and their non-intended outcomes (Hall, 1993; Hall and Taylor, 1996; Krasner, 1984, 1988). Existing institutions that were established at the point of time (t) continuously restrict the room for policy choices at (t+1), and the institutions at (t) would produce non-intended outcomes at (t+1). So, as a result, not only are institutional changes basically incremental and follow a path-dependent route, but it can be expected that the institutions at (t+1) would be contingent and inefficient. However, in some instances, changes in institutional structure could happen fundamentally and intermittently. These exceptional cases can be speculated in particular times when traditional policy patterns face critical challenges from economic and political crisis. In these historical junctures, a nation can experience the re-formation of social relations and institutional structures. Such explanations of the institutional changes can be applied to the path-dependent development of the welfare state programmes (Esping-Andersen, 1996a, 1999; Pierson, 2001b; Myles and Pierson, 2001; Wood, 2001) and the emergence of 'competitive corporatism' (Rhodes, 2001).

The analytical foci of historical institutionalism can help to explain why national responses to the convergent environmental changes have been so diverse and to emphasise the importance of domestic political institutions, welfare politics and welfare state structures. First of all, there have been strong counter arguments on the convergence thesis of economic globalisation. Following the tradition of embedded democracy that focuses on the compensatory nature of social welfare institutions which compensate for the insecurity caused by trade openness (see Cameron, 1978; Katzenstein, 1985), Garrett (1998) argues that Economic globalisation is getting viable but it drives out neither the importance of domestic political processes nor social democratic alternatives. Rather, economic globalisation evokes the necessity of government intervention to 'mitigate the insecurities, instabilities and inequalities it has generated' (p.4). He asserts that big governments and corporatist principles are still viable both politically and economically. First, politically, because of the short-term nature of democratic politics, policies radically changing people's life in short-term cannot be implemented, and support for the welfare state has not been damaged even in

the English-speaking world. Second, economically, 'big government' does not always cause the exit of capital. Where social democratic corporatism is strong, the government invests a great deal on social infrastructure, education and training which ultimately are beneficial to the economy. Accordingly, the impact of globalisation is different according to domestic partisan politics and the role of the government. He asserts;

Even in the global economy, and despite the fanfare to the contrary, citizens still have a real choice to make about how to govern the market, ultimately based on one's view of fairness of market allocations of resources. This divide has always been the sine qua non of democratic politics. It remains so today.
(p.25)

More sophisticated arguments on the diverse responses to economic globalisation can be found in Swank (2002). He provides strong evidence that the convergence thesis of globalisation, or social dumping thesis, cannot be generalised; the impacts of economic globalisation on the welfare state have been fundamentally and systematically shaped by political institutions – features of the polity, the structure of the decision making authority and the structure of welfare state institutions – within the domain of nation states. Along with the structures of programmes, universalism or corporatism, the political institutions – such as social corporatism and electoral inclusiveness – of larger welfare states in Western Europe have blunted the pressure of economic globalisation because they have promoted encompassing pro-welfare interest representations and universal or corporatist welfare state structures have maintained broader pro-welfare coalitions between the working and middle class. So, he argues the importance of class-based actors and the relative distribution of political power across those actors, following the 'power resource' tradition, as the central features of welfare state politics, and the viability of social corporatist institutions albeit weakening trade unionism (Swank, 2002: 281-3).

Similarly, Rhodes (2001) focuses on social corporatist institutions and the related new coalition structures that they have promoted. Under the conditions of domestic economic and/or social crisis as historical junctures, new social pact politics have emerged or corporatist institutions have been revitalised in many European countries since the mid-1980s, in order to retain macro-economic performances, to facilitate restructuring and to reform welfare programmes without the loss of basic

social protection principles. According to Rhodes (2001), the new 'competitive corporatism' can be found in the Netherlands, Italy, Ireland, Portugal and Spain. The most outstanding and successful example is the Dutch case. In the Netherlands, a more flexible version of bipartite corporatism has been revitalised since the nation-wide social pact, the Wessenaar accord of 1982, which includes more decentralised wage bargaining, a flexible labour market and social security reforms. A movement from passive income support to efforts to facilitate labour market participation, helped overcome the severe unemployment crisis. Such economic, labour market and welfare reforms have been accompanied with higher compensation levels for irregular workers, and have resulted in the so-called 'Dutch Miracle' (Visser and Hermerijck, 1997), namely good economic performances and lower unemployment without rising inequality. Also In Italy, based on the stabilised social corporatism of the 1990s, various economic and welfare reforms including the abolishment of price indexation in wage bargaining, pension reforms and labour market reforms could have been implemented. In case of Ireland, a new tripartite corporatism emerged when the country faced the public debt crisis of 1986, the new social pact politics have attempted to deal with comprehensive economic and social policy issues including wage bargaining, tax, education, health and social security via centralised negotiation (O'Donnell, 1998). The various experiences of new social pacts politics show that the role of the state and domestic political institutions are indispensable in the extreme conditions of national crisis caused either by economic globalisation (e.g. foreign currency crisis) or by post-industrial pressures (e.g. unemployment crisis, fiscal deficits).

Whereas new social pact politics reflect relatively radical changes to institutions in historical junctures, the very structures of welfare state institutions (past policy legacies) have been highlighted as one of the most important constraints affecting the degree and scope of contemporary welfare reforms (Iversen and Wren, 1998; Scharpf and Schmidt, 2000; Scharpf, 2000; Swank, 2001, 2002; Pierson, 2001b), because they have nurtured specific interests, inter-class coalitions and preferential values that influence upon welfare politics. Basically, as Pierson (1994) indicates the 'politics of retrenchment' is different from the 'politics of expansion', the political viability of the foundations of the welfare state has remained almost untouched. He argues that welfare states have solid political strength based on the following two sources; i.e., 'the electoral incentives associated with programmes which retain broad and deep popular

support' and 'the institutional 'stickiness' which further constrains the possibilities for policy reform' (2000b: 411). Whilst universal programmes and income-related social insurance institutions usually retain broader and strong coalitions by protecting them from retrenchment pressures, means-tested programmes are on fragile political ground and have been the main target of retrenchment in liberal welfare states.

So, although either economic globalisation or post-industrial pressures have required the restructuring of welfare state structures, the direction and degree of welfare reform has been restricted by the institutional legacies of past welfare state structures and changes in welfare state programmes have been predominantly incremental in major welfare states. In this respect, post-industrial theorists Iversen and Wren (1998), who focus on the transformation of the employment structure to service economies, assert that the policy responses of different welfare states to the common 'trilemma' between budgetary restraint, income inequality and employment growth have differed greatly. Whilst the neo-liberal route has taken fiscal discipline and employment growth at the expense of earning equality and class distinction, the Christian Democratic countries of Continental Europe have suffered from chronic high unemployment, social exclusion and an insider-outsider division of the labour market because they have pursued earning equality and fiscal discipline. Alternatively, Social Democratic traditions have followed earning equality as well as employment growth in the public sector, but this has caused severe fiscal deficits and higher taxation. They comment on the different paths of the different welfare state regimes that 'the influence of ideological legacies and existing socio-economic institutions becomes clear' (p.544). Similarly, Scharpf and Schmidt (2000: 335-6) address the different routes of policy responses to the economic constraints of globalisation as follows;

[T]heir [different welfare states] adjustment paths differ: not only because they started from different initial positions, but also because their policy aspirations continue to differ. ...Under these economic constraints ... the size of the welfare state and the level of redistribution remain to the national political choice.

To sum up, the political factors that influenced welfare state development until the 1970s – democratic polity, partisan politics and corporatist institutions – have remained valid in the adaptation of welfare states to changing environments. Although it

seems true that the reforming or restructuring of welfare state institutions has risen as main policy agendas attempt to cope with macro economic and social changes, both external forces and internal pressures have altered the preconditions of traditional welfare state models, in almost all advanced democracies, the direction and scope of national policy responses has been diverse and heavily dependent on national politics and past institutional legacies. In conclusion, the importance of domestic political institutions has always been critical in the development of the welfare state, from its expansion from the initial stage to its restructuring in the contemporary era.

3.3. Research Framework

Based on the general discussions and theories dealt with in Chapter 2 and the previous sections of this Chapter, I propose the analytical framework of the research as shown in Figure 3.1. As mentioned in Chapter 1, the purpose of the research is to analyse welfare mix changes between 1987 and 2002, and to explain how environmental factors and political institutions have influenced such changes through which policy processes. So the research considers three sets of independent variables; namely, one being external forces and internal pressures that require contemporary welfare states to adapt, and the other two sets are domestic political institutions and past institutional legacies that have shaped the real direction and scope of welfare reforms or changes to social welfare institutions. Welfare politics as social policy processes are likely to be facilitated by the former environmental factors, but it is possible within the context and restrictions that political institutions provide. Finally, the research framework indicates that these independent variables have an impact on changes in welfare mix structures. The dependent variable of the research is the overall welfare mix, rather than a specified welfare state. Now, in the remaining part of this section, I shall briefly introduce each component of the research framework.

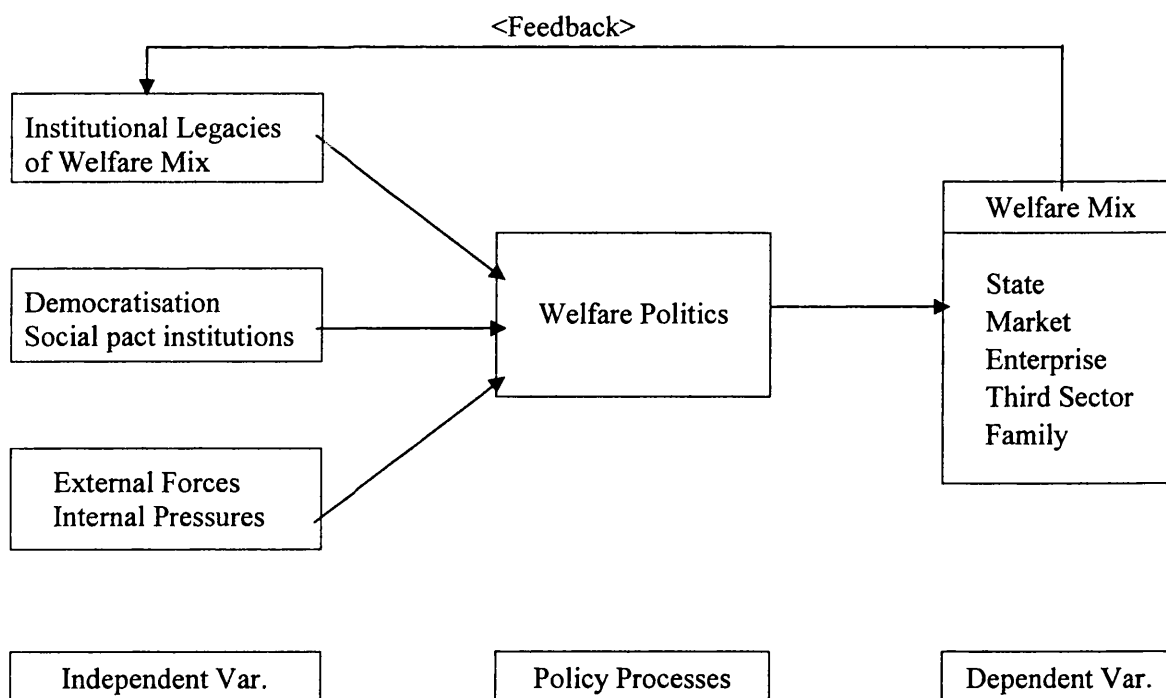


Figure 3.1. Research Framework

Environmental Factors

External Forces. Economic globalisation has been regarded as one of the most important challenges to traditional welfare state models that are heavily based on relatively closed economies making Keynesian macro economic policies possible. Trade openness, FDI and international mobility of financial capital have been indicated as the major indicators of economic globalisation. The arguments are frequently raised that higher trade openness has led national economies to global competition, the national government have to make efforts to induce global capital and the ‘exit’ option of the capital has strengthened its structural power vis-à-vis labour. So economic globalisation has weakened the capabilities of nations states in macroeconomic management, injured the basic economic, political and social assumptions of Keynesian welfare states and ultimately led to a ‘race to the bottom’ in social protection (McKenzie and Lee, 1991; Cerny, 1996; Mishra, 1999; Strange, 1996). Sometimes, as seen in the Asian Financial Crisis in 1997, economic globalisation has been accompanied by political pressures from IGOs like IMF and WB. When a national economy faces a severe foreign currency

crisis and asks for Structural Adjustment Loans from the IMF and WB, the policy autonomy of the nation state is likely to be damaged significantly through the policy recommendations and conditionalities of the emergency loans (Lopes, 1999; Owoh, 1996). However, there have been counter arguments that, to mitigate the negative effects and to cushion the higher risks caused by economic globalisation, governments have expanded their intervention policies. This compensation hypothesis originated from Cameron (1978), Katzenstein (1985) and, more recently, Rodrik (1998) who found a positive correlation between trade openness and the size of governments in terms of public expenditure. Many recent studies have suggested that the impacts of economic globalisation cannot be generalised, but are diverse according to national political institutions⁹ (Garrett, 1998; Scharpf, 2000; Swank, 2002).

Internal Pressures. According to post-industrial theorists, the challenges to traditional welfare state models fundamentally originate from domestic socio-economic transformations such as de-industrialisation with rising levels of service employment, population ageing and family dissolution. Post-industrial pressures not only create new risks and demands to be dealt with by state (family dissolution), but also lead to severe burdens upon existing state programmes (population ageing). Under the condition caused by de-industrialisation such as low overall productivity and a growing service sector, such higher burdens ultimately lead to a critical fiscal constraint on the government (Pierson, 2000a). This ‘unprecedented budgetary stress’ from the welfare state, therefore, forces states to accomplish the politics of austerity to reform the public welfare system. However, as the speed and degree of post-industrialisation has varied greatly across countries, the impacts of post-industrial pressures are neither uniform nor general. In this respect, post-industrial theorists stress the importance of domestic politics and past institutional features in the processes of adaptation to post-industrial pressures (Pierson, 1998, 2000a, 2000b; Iversen and Wren, 1998; Iversen, 2000).

⁹ Similarly Rieger and Liebfried (1998, 2003) also pay attention to the compensatory features of welfare state programmes in the era of economic globalisation. However, put somewhat differently, they place the welfare state as the independent variable explaining the degree and direction of economic globalisation, rather than the dependent variable explained by it. They argue that historically the welfare state has accomplished a decisive role in determining the pace, timing and extent of globalisation and in managing the social and political effects of economic restructuring in a nation. For them, the internationalisation of national economies has always been mediated by the state and welfare state programmes, as functional equivalents to protectionism, have been the basis of the openness of national economies. For their detailed arguments, see Rieger and Liebfried (2003).

Political Institutions

Democratisation/Parliamentary Democracy. It has been widely accepted as a universal trend that there is a selective affinity between democracy and welfare state development. Both power resource theory (which focuses on mobilisation of the working class mobilisation and a strong leftist party) and the pluralist perspective (which focuses on the interaction between interests groups) cannot be completed without the prerequisite of political democracy (Korpi, 1983; Esping-Andersen, 1985; Pampel, 1981; Pampel and Williamson, 1989). By not strongly depending on Marshall's linear development processes of social right, we cannot deny that political democratisation provided the fundamental institutional settings for the expansion of the democratic principle to the social arena. In this respect, Schmitter and O'Donnell (1986) indicated that democracy tends to diffuse political democracy to welfare and social democracy. Democratisation made it possible for social groups to participate in policy-making processes through either less-institutionalised ways like lobbying and on-the-street politics, or more institutionalised ones like class-based partisan politics and social pact politics. The establishment of procedural democracy from authoritarian rules seems critical to the working of welfare politics in developing countries, because it provides the fundamental preconditions for the real involvement of social groups in social policy making processes.

Social Pact Institutions. Where a mobilised working class based in heavy mass-scale industries is strong in countries like Austria, Norway, Germany and Sweden, policy-making processes have not been confined to the partisan politics based on the parliamentary democracy but have been extended into a more direct social consent mechanism in the form of social corporatism (Katzenstein, 1985; Schmidt, 1985). A wide range of policy issues have been dealt with through considerably centralised 'social pact politics' between peak associations of businesses, trade unions and the government, including wage bargaining, working conditions, employment and social welfare. In this case, strong trade unionism (or balanced power between labour and capital) seems indispensable for true negotiation without the coercive quiescence of

labour¹⁰. Although traditional social corporatist institutions have weakened along with the declining of trade unionism, those countries with relatively strong social corporatist institutions have protected, and even improved, their welfare states quite well (Garrett, 1998; Swank, 2002). Moreover, in situations of national economic, unemployment and public finance crisis in some European countries, new social pact politics have emerged or social corporatist traditions have been revitalised since the early 1980s, in order to induce social consents amongst major social groups (Rhodes, 2001; for the outstanding Dutch case, also see Visser and Hermerijck, 1997). What Rhodes calls ‘competitive corporatism’ seems an effective way to find equitable, democratic solutions without the one-sided scarification of labour or mass social disruption. As a result, although neo-liberalists take a sceptical attitude to social corporatism, it has been a critical institutional factor in both the expansion and reform of social welfare programmes.

Institutional Legacies of the Welfare State¹¹ (Welfare Mix).

Many have indicated that the past institutional legacies of welfare states have been one of the most important constraints affecting the degree and scope of contemporary welfare reform and that the welfare reforms of different welfare states follow different path-dependent routes (Iversen and Wren, 1998; Scharpf and Schmidt, 2000; Swank, 2002; Pierson, 2001b). Welfare state structures influence the political capacities of pro-welfare interests, not only by nurturing vested interests and broader inter-class coalitions regarding specific social welfare programmes, but also by promoting pro-welfare values, norms and behaviour in welfare politics (Swank, 2002). In social democratic and conservative-corporatist welfare states, there have been strong political bases for maintaining universal and income-related social insurance, and promoted broader pro-welfare norms and coalitions across the working and middle class. But, in

¹⁰ In this respect, some argue that trade unionism appears vital in democracy itself because it has led the scope of democracy to be expanded from a procedural (political arena) to a substantive (social and economic democracy) level and has contributed to the consolidation of democracy by requiring social pact institutions to deal with socio-political conflicts (Rueschemeyer, Stephens and Stephens, 1992; Huber, Rueschemeyer and Stephens, 1997).

¹¹ Pierson (2001a) classifies the institutional legacies of the welfare state – what he calls ‘welfare state maturation’ – as an indicator of post-industrialisation, but I include them in the category of political institutions because they can be understood better in terms of the political context that shapes the direction and degree of policy changes in the welfare politics, rather than as a macro socio-economic transformation.

liberal welfare states, considerable welfare state retrenchments have been implemented, especially in public assistance programmes. On the other hand, the institutional legacies of the welfare state could refer to the structural features of state intervention in social welfare. It is particularly useful to note this when the analytical focus is widened to look at a broader perspective of the welfare mix. The state has intervened in the welfare provisions of non-state sectors through various legal, financial and regulatory tools. If a country had a tradition of dependence on the third sector in social service provision, for example, responses to newly rising welfare needs would reinforce the utilisation of third sector provision instead of initiating direct provision by the state (for European welfare mix cases, see the edited volume of Ugo Ascoli and Costanzo Ranci, 2002). Also, somewhat differently, previous regulation of the state over non-state sectors could produce non-intended or contingent outcomes¹² (Hall and Taylor, 1996). In the research, the institutional legacies include not only the past institutional features of state welfare and other state interventions in social welfare, but also those of non-state sectors in social welfare provisions. So the focus is placed on the broader welfare mix structure when discussing its path-dependent development, alongside state interventions.

Welfare Politics in Social Policy Processes

It is the welfare politics in social policy processes where various political actors sometimes come into conflict and sometimes construct coalitions with other actors in order to achieve their own interests. Despite the fundamental emphasis on the domestic political institutions that shape interests, cross-class coalitions and programmatic coalitions, the importance of traditional class-based actors still remains as a central feature of welfare state politics in Western European countries (Swank, 2002: 283-4). In these cases, welfare politics taken place through formal political mechanisms like partisan politics and social pact institutions. Important political actors include not only the working class (trade unions) and social democratic parties, but also Christian Democratic parties, groups and the middle class which construct welfare state defence

¹² For example, when the state mandated employers' responsibility for providing unemployment benefits or severance payments to prevent abuse of lay-offs, such regulation would cause an immense increase in related enterprise welfare expenditure at a time of mass unemployment. This was the case in Korea during the economic recessions and the following explosion of unemployment between 1997 and 1999.

coalitions (*Ibid*, chapter 4 and 5). If international capital mobility has strengthened the structural power of capital, the broader coalition between the working and middle class has been shaped in the context of the democratic political and welfare state institutions in the politics of welfare reform. So partisan politics and social corporatist institutions seem still viable in a global economy (Garrett, 1998), and the working class and strong trade unionism remain as the pivotal pillar in the welfare politics. However, where the degree of mobilisation of the working class is low and leftist political parties are absent from partisan politics, or where the working class is excluded, or remains nominal, in the welfare politics by a strong state-business coalition or democratic political institutions are not fully developed or underdeveloped, various non-class-based political actors dominate welfare politics. Whereas the former is the case in countries where pluralist interest group politics dominates like the US (Pampel and Williamson, 1989), the latter indicates the role of civil society in developing countries¹³. Especially, regarding this research in particular, the role of some influential Civil Society Organisations (hereafter CSOs) as advocacy groups has dramatically expanded in the welfare politics of Korea, in shaping pro-welfare coalitions with trade unions and, sometimes, pro-welfare Ministries of the government (for the roles of CSOs in the welfare politics, see B.Y. Ahn, 2000; Y.M. Kim, 2002; J.Y. Moon, 2001; K.Y. Shin, 2003).

Welfare Mix as a dependent variable

In the research model, the dependent variable is the overall welfare mix and therefore looks at the broader structure of social welfare provision, and so the research is not solely confined to state welfare. In the research, the welfare mix consists of the state sector and four non-state sectors, i.e., the market, the enterprise, the third and the family

¹³ In this respect, Weigle and Butterfield (1992) provide a useful model for the developing processes of civil society as democratisation moves forward. Under authoritarian regimes, civil society plays only marginal roles allowed by the regimes, but such a defensive civil society turns to a mobilised civil society that resists the authoritarian regimes in order to gain political democracy. Once the procedural democracy is established, an institutionalised civil society emerges with institutionalised democratic procedures and norms. The active participation of the civil society in welfare politics can be realised in the last stage (institutionalised civil society). So political democratisation can be regarded as a critical precondition for the active participations of CSOs in welfare politics, and this is the very case in Korea as I shall discuss in Chapter 7.

(household) sector. As mentioned in the concluding section of the previous chapter, it gives the research a particular originality which makes it distinctive from most existing research, which usually analyses the impacts of environmental factors and/or political institutions on the welfare state. In so far as environmental factors and political institutions have had an influence on state welfare, the same logic can be applied to non-state sectors. Although state welfare is the main area that political actors attempt to reveal their interests in social policy processes, it is also true that the welfare provisions of non-state sectors can be the targets of welfare politics in various ways. Overall, the state's interventions including regulations and financial supports are critical in the welfare provisions of the enterprise, market and third sectors. So, in this respect, the flexible interaction between state interventions and actions in non-state sectors are very important to consider when analysing welfare mix structure. In addition, more direct welfare politics can be viewed regarding the provisions of non-state sectors; for example, business protests and lobbies for the expansion of welfare markets, and there are complicated conflicts over enterprise welfare between business, labour and the state.

CHAPTER 4. ENVIRENMENTS, POLITICAL INSTITUTIONS, INSTITUTIONAL LAGECIES: AN INTRODUCTION TO THE WELFARE MIX IN KOREA

The Korean economy was recorded as one of the fastest growing economies in the world between the early 1960s and the mid-1990s, before it faced the financial Crisis of 1997. But the dynamics of Korea are not restricted to its economic development during the hey-days. Politically and socially, Korean society has revealed relatively fast and dynamic transformations particularly since the democratisation of 1987. Based on a democratic transition from authoritarian regimes, for example, a procedural democracy has been established in political institutions, a relatively strong trade unionism has appeared as an important variable in policy processes, and the dynamic civil society¹ has widened its scope to various social issues. Before examining the welfare mix in Korea, it is necessary to investigate the trends of political, economic and social changes, because they have provided the basic conditions for welfare mix changes. At the same time, the institutional legacies of the welfare mix until 1987 should be defined in this chapter if we are to recognise the incremental, rather than revolutionary, nature of the changes to social welfare institutions.

In the first section, I shall describe the socio-economic changes driven by external forces and internal pressures. The Korean economy has been greatly integrated into the global economic order since the early 1990s and it experienced the financial crisis of 1997. Domestically, Korean society has been transforming from an industrial to a post-industrial society, and features of both exist together. The second section specifically presents the changes in political institutions – the political democratisation since 1987 and the experiments with social pact institutions. These domestic

¹ The dynamic civil society has been indicated as a typical factor indicating the very unique case of the Korean politics. Some journalists say 'too dynamic Korea' when they comment the explosive power of civil society in the recent President ratification issue (*Hankeorae* 21, 14/4/2004). Really, civil society plays a significant role in many social and political issues, and this is again the case in welfare politics.

institutional features, including the historical legacies of the welfare mix, have shaped the opportunities and restrictions within welfare politics. I shall define the main political actors in welfare politics in the same section. In the third section, I shall demonstrate the institutional legacies of the welfare mix and related state interventions ensconced within its development until 1987, which can be assumed to have influenced welfare mix structure in the period post-1987.

4.1. External Forces and Internal Pressures in Korea

4.1.1. External Forces: Integration into the Global Economy

At least until the mid-1990s, the achievements of the Korean economy deserved to be called a 'miracle'. As Cho indicates, Korea's economic development can be identified by positive features such as high growth rates, fast increases of per capita income, low unemployment rates, the prompt transformation of industrial structure to manufacturing industry and rapid increases in international trade (S. Cho, 1994:30). The average economic growth rate exceeded 8 per cent in the 1960s and 1970s² and such high growth rates were maintained until the Crisis (see Table 4.1). The per capita national income exceeded 10 thousand US dollars in 1996, a huge rise from about two hundred US dollars in 1961. Although there was high inflation in the 1960s and 1970s, the consumer price index became stable from the early 1980s. The chronic unemployment problem of the 1960s, caused by continuous labour inflows from rural areas, began to be transformed into a labour shortage from the mid-1980s. As seen from Table 4.1, the Korean economy achieved almost full-employment (below 3 per cent) until 1997. As national income increased, the gross saving rate had been over 30 per cent of GDP in the 1980s and the 1990s, and such increases in domestic savings could in turn fuel higher investment.

² The growth rates were on average 7.8per cent between 1962 and 1966 (the First economic Development Planning Period), 9.7per cent between 1967 and 1971 (the second term), 9.1per cent between 1972 and 1976 (the third term), and 5.7per cent between 1977 and 1981 (the fourth term).

Table 4.1. Major Economic Indicators: 1980-2002

	Nominal GDP (Tr won)	GNI per capita (USD)	Exchange Rate (won)	Economic Growth Rate	Unemp- loyment Rate	Consumer Price Increase	Gross Saving Rate	Gross Investment Rate
1980	37.8	1,598	607	-2.1	3.5	21.4	24.4	32.2
1985	81.3	2,229	870	6.5	2.4	2.3	31.1	30.5
1987	111.2	3,201	822	11.0	1.8	3.1	38.4	30.2
1990	178.8	5,886	708	9.0	1.8	8.6	37.5	37.6
1991	216.5	6,810	734	9.2	2.0	9.3	37.3	39.8
1992	245.7	7,183	781	5.4	2.1	6.2	36.4	37.3
1993	277.5	7,811	803	5.5	2.3	4.8	36.2	35.4
1994	323.4	8,998	804	8.3	2.0	6.3	35.5	36.5
1995	377.3	10,823	771	8.9	1.7	4.5	35.5	37.3
1996	418.5	11,385	805	6.8	1.6	4.9	33.8	38.1
1997	453.3	10,315	951	5.0	2.3	4.4	33.4	34.4
1998	444.4	6,744	1,399	-6.7	5.7	7.5	33.9	21.3
1999	482.7	8,595	1,190	10.9	5.1	0.8	32.9	26.9
2000	522.0	9,770	1,131	9.3	3.3	2.3	32.4	28.3
2001	551.6	9,000	1,291	3.1	3.1	4.1	30.2	27.0
2002	596.4	10,013	1,251	6.3	2.5	2.7	29.2	26.1

Sources: Bank of Korea, *National Accounts* 1980-2002; Korea Labour Institute (1992, 2003), *KLI Labour Statistics*.

The good performance of the Korean economy was fuelled by an augmentation of exports on the basis of favourable international economic conditions (Lee HK, 1999; Shin DM, 2000). When industrialisation took off in 1960s, Korea had scarce natural resources, little domestic capital and weak domestic markets. Based on affluent labour, Korea's developmental state took the EOI (Export Oriented Industrialisation) model as its economic developmental strategy, instead of the ISI (Import Substitutive Industrialisation) model. Accordingly, the Korean economy has been heavily reliant on international trade – in particular via the processing trade where Korea exports manufacturing goods whilst importing raw materials and capital goods. Moreover, until the 1980s, the international economic order based on the GATT system provided favourable conditions for international trade to developing countries such as Korea; a preferential tariff rate could have applied to Korea as well as it could maintain relatively protected domestic markets. Under such favourable conditions, the state played a

critical role in EOI processes; it encouraged exporting industries, induced and allocated foreign loans, controlled the financial institutions to support exporting firms and exerted a high level of regulation over the domestic capital market as well as international capital flows. All the interventions were aimed at increasing exports. As a result, Korea's exports increased fast³ and the export growth has been recorded as one of the fastest in the world. Some analysts comment that the good economic performance of Korea, along with Japan and the other three Tigers of East Asia, show the success of the 'developmental state' model⁴.

As seen from Table 4.2, the amount of international trade as a percentage of GDP exceeded 60 per cent throughout the 1980s. Although the expansion of domestic markets caused by the real increase in national income pulled down the percentage of international trade to below 50 per cent of GDP in some years of the early 1990s, its importance began to rise following the Crisis of 1997. The rapid increase in trade in 1998 was due to a sudden devaluation of Korean currency during the Crisis, however the percentage of international trade was also above 70 per cent of GDP in 2000 when the exchange rate was stable (see Table 4.1). The increase of exports was the main catalyst that allowed the Korean economy to overcome the unprecedented economic recession of 1998, and the following financial crisis, by achieving approximately 10 per cent of economic growth between 1999 and 2000. Therefore, the importance of international trade has always been critical in the Korean economy. At the same time, most domestic markets for goods have been opened since the early 1980s. Most of the barriers and restrictions to manufacturing imports were either withdrawn or weakened during the 1980s and, according to the Uruguay Round, most agricultural markets were also opened (S. Cho, 1994: chapter 7; D.M. Shin, 2001).

Interestingly, the financial markets and international capital mobility were highly controlled under the state's direct regulation until the early 1990s, even though international trade has played a critical role in the Korean economy in a similar way to small European countries like Belgium, the Netherlands, Luxembourg and Scandinavian

³ At the same time, due to the feature of Korea's international trading (the proceeding trade), the increase in exports was inevitably accompanied by a similar increase in imports.

⁴ The developmental state model originates from Johnson's work on the Japanese case between the 1920s and 1970s. According to him, the wonderful economic performance of the Japanese economy were possible on the basis of a competent bureaucracy autonomous from society. This state-centred approach to the economic development processes has been much adapted to the Korean case. For details, see Amsden (1989) and the edited volume of Woo-Cummings (1999).

countries. In 1981 the government announced a set of plans for the liberalisation of the financial market but hardly achieved this aim during the 1980s. Nationalistic military regimes preferred foreign loans as opposed to FDI as foreign loans allowed the government to manoeuvre and allocate imported capital to regional firms and therefore provide investment for heavy industry (D.M. Shin, 2000: chapter 6). Except in some restricted regions, FDI inflows were not welcomed and many regulations and restrictions on international capital flows remained until the early 1990s.

Table 4.2. Major Indicators of Economic Globalisation: 1980-2001

	Trade in Goods		FDI Inflows, net		Financial Market	
	Trade (% of GDP)	Export (% of GDP)	(% of GDP)	(% of GCF ¹)	GPCFs ² (% of GDP)	SMInflows ³ (% of GDP)
1980	64.0	28.1	0.0	0.0	9.1	
1985	65.8	32.4	0.3	0.9	6.9	
1987	65.3	35.0	0.5	1.6	6.7	
1990	53.4	25.7	0.3	0.8	5.6	
1991	52.0	24.4	0.4	1.0	5.5	
1992	50.3	24.4	0.2	0.6	6.5	0.9
1993	48.0	23.8	0.2	0.5	6.7	2.2
1994	49.3	23.9	0.2	0.6	8.4	2.1
1995	53.2	25.6	0.4	1.0	11.3	2.0
1996	53.9	24.9	0.4	1.2	13.3	2.4
1997	58.9	28.6	0.6	1.7	14.3	2.6
1998	71.0	41.6	1.7	5.7	26.8	4.0
1999	64.9	35.4	2.3	8.3	16.4	10.7
2000	72.1	37.3	2.0	7.1	11.4	13.6
2001	69.1	35.6	0.8	3.1	11.4	11.2

1. Gross Capital Formation

2. Gross Private Capital Flows following the World Bank definition. It is the sum of the absolute values of direct, portfolio, and other investment inflows and outflows recorded in the balance of payments financial accounts, excluding changes in the assets and liabilities of monetary authorities and general government.

3. Investment Inflow to Korean Stock Market

Sources: World Bank, *WDI 2003* online; Bank of Korea, *National Accounts* 1980-2002.

However, Korea's financial markets began to be dramatically liberalised and internationalised from the early 1990s. In 1992, the direct investment of foreign investors on the Korean stock market was allowed. Especially, when the Kim Young

Sam government (1993-1997) launched so-called *Saegyewha* policies targeting OECD membership, policies to increase the openness of foreign currency and capital markets were implemented positively (Son and Jung, 2001). Regulation and restrictions over short-term foreign loans were withdrawn in 1993. Korean firms and other short-term financial institutions could borrow foreign capital directly and most regulations over foreign currency trading were alleviated. Short-term loans from foreign financial institutions increased dramatically and they were the direct cause of foreign currency crisis in 1997. As seen from Table 4.2, the gross private capital flows increased rapidly from 1994 (also see Appendix Table 3-2 and 3-3). But FDI inflows remained redundant; the level of FDI inflows never exceeded 1 per cent of gross capital formation until 1995. It was after the Crisis that the Korean government began to induce FDI more positively, in order to overcome the foreign currency crisis. Most of all, a liberalised financial market and greater capital mobility have provided the basic conditions for the mass investment inflows into the stock market since 1999. Following the worst stock devaluation of 1998, foreign investors began to put enormous investments, corresponding to 10.7 per cent of GDP in 1999, into the Korean stock market. Since then, the Korean stock market has been critically vulnerable to foreign investors⁵. As a result, in terms of international trade, FDI inflows and financial market openness including capital mobility, the speed of economic globalisation of the Korean economy has dramatically intensified since the Crisis⁶.

Comparatively speaking, the importance of international trade was higher than in any other of the G7 countries and its scale was twice the OECD average in 2000 (see Table 4.3). In terms of international trade, the Korean economy has been structurally dependent on the conditions of global markets and, therefore, is very vulnerable to external shocks like a sudden fluctuation in the exchange rate, international interest rate and oil price. In addition, the figures in Table 4.3 indicate that the level of financial market openness of Korea intensified during the 1990s; although FDI inflows and capital mobility were less than the average of developed economies, the level of financial market openness of Korea was higher than that of Japan (and Italy in terms of

⁵ For example, KOSPI fluctuates according to the movement of foreign investors. The average share possession of foreign investors in the 10 largest companies is almost 60per cent (*Chosunilbo*, 13/4/2003).

⁶ There were some revised trends of FDI and GPCFs in 2001 as the Korean economy became stable, but it is hard to say whether such decreases mean a change in the basic conditions of economic globalisation (esp. international capital mobility) *per se*. Rather, paradoxically, such a fluctuation can be understood as evidence of how vulnerable the Korean economy is to external forces.

FDI). Moreover, it is worthwhile to indicate that the financial market openness of Korea has caught up with the OECD average figures of 1990.

Table 4.3. Major Indicators of Economic Globalisation: International Comparison
(% of GDP)

	Trade in Goods		Net FDI Inflows		GPCF ¹	
	1990	2000	1990	2000	1990	2000
Canada	43.7	73.8	1.3	9.3	8.1	30.5
France	37.1	50.4	1.1	3.3	20.6	35.7
Germany	46.0	56.2	0.1	11.1	9.8	41.4
Italy	32.0	44.7	0.6	1.2	10.6	23.7
Japan	17.1	18.0	0.1	0.2	5.4	10.5
UK	41.2	43.9	3.4	8.4	35.3	119.8
US	15.8	20.8	0.8	3.1	5.7	17.1
G7	33.3	44.0	1.1	5.2	13.6	39.8
OECD	30.1	36.0	1.0	4.2	10.8	32.0
Korea	53.4	72.1	0.3	2.0	5.6	11.4

1. Gross Private Capital Flows

Source: World Bank, *WDI 2003* on-line.

4.4.2. Internal Pressures: Transformation from an Industrial to a Post-industrial Society

Until the 1980s, it can be asserted that Korea's internal pressures originated from industrialisation processes. However, it is very difficult to identify the transformation of Korea's socio-economic structure during the 1990s with such dichotic terms as industrialisation and post-industrialisation. Following Pierson's definitions of post-industrial society (Pierson, 2001a), Korea's internal pressures seem a half way split between the two, i.e. a mixed state between industrialisation and post-industrialisation, or more correctly, it is 'transforming' from industrial to post-industrial society. For the last decade of the 20th century, Korean society has entered the post-industrial era in terms of its employment structure and the transformation of household structures. However, for the other two factors, the maturing of the welfare state and the ageing population, Korea seems still far from the post-industrial stage, even though both of them would inevitably put heavy pressures on the Korean society in the long term.

Table 4.4. Employment Structure

	Total (thousand)	By Industry		By Type		
		Industry Employment ¹ (% of total)	Service Employment (% of total)	(% of total)	Paid Employment (% of Paid Employment)	
					Regular	Temporary
						Daily
1980	13,683	29.0	37.0	47.2	79.9	20.1
1985	14,970	30.8	44.3	54.1	82.8	17.2
1987	16,354	34.0	44.1	56.2	83.4	16.6
1990	18,085	35.4	46.7	60.5	54.2	29.0
1991	18,649	36.0	47.7	62.7	55.5	28.7
1992	19,009	35.0	49.3	62.7	57.4	27.7
1993	19,234	33.5	51.7	62.1	58.9	26.7
1994	19,848	33.2	53.1	62.9	57.9	27.8
1995	20,414	33.3	54.3	63.2	58.1	27.9
1996	20,853	32.5	55.9	63.3	56.8	29.6
1997	21,214	31.2	57.5	63.2	54.3	31.6
1998	19,938	27.8	59.8	61.7	53.1	32.9
1999	20,291	27.4	61.0	62.4	48.4	33.6
2000	21,156	28.0	61.1	63.1	47.9	34.5
2001	21,572	27.5	62.6	63.3	49.2	34.6
2002	22,170	27.3	63.3	64.0	48.4	34.5

1. The portion of total employment recorded as working in the industrial sector, including mining and quarrying, manufacturing, electricity, gas and water, and construction, corresponding to major divisions 2-5 (ISIC revision 2) or tabulation categories C-F (ISIC revision 3).

Source: KLI, *Labour Statistics*, various years

Table 4.5. Main Indicators of Household Structure

	Women's Participation		Fertility Rate (TFR) ³	Family Dissolution		
	% of FWA ¹	% of TE ²		Divorce rate ⁴	AHM ⁵	% of SH ⁶
1980	42.8	38.7	2.83	5.9	4.5	4.8
1985	41.9	39.0	1.67	10.3	4.1	6.9
1990	47.0	39.3	1.59	11.4	3.7	9.0
1995	48.4	40.4	1.65	17.1	3.3	12.7
2000	48.6	41.4	1.47	35.9	3.1	15.5
2002	49.7	41.8	1.17	47.4	3.2	16.1

1. Female labour force as % of total female working age population (aged between 15-64).

2. Female labour force as % of total employment

3. Total Fertility Rate (birth per woman)

4. The number of divorced divided by the number of married (percentage).

5. Average number of household member

6. Single-person households as % of total

Source: World Bank, *WDI 2003* on-line; NSO, [<http://kosis.nso.go.kr/cgi-bin>]

Most of all, for last two decades, the employment structure has changed dramatically (see Table 4.4). In 1980, one third of the total labour force were employed in the agricultural sector and 29 per cent by the secondary industries. Industrial employment reached its peak (approximately 35-36 per cent) between the late 1980s and the early 1990s. The period corresponded directly to the heyday of Korea's labour movement between 1987 and 1989. Until 1990, agricultural employment was pulled down to below 20 per cent. Korea's industrialisation intensified in the 1980s. From 1992, however, employment in industries began to decrease and, especially, during the economic crisis of 1998 produced mass unemployment in the industry sector. Industrial employment was reduced by 3.5 per cent in a single year. Since 1998, the industrial employment has remained below 28 per cent, which is the same level as the 1970s. At the same time, agricultural employment has continued to decrease to around 10 per cent. The large loss of industrial jobs and the continued decrease in agricultural employment have been absorbed by an increase of service sector employment. The share of service sector employment in the total employment began to exceed 60 per cent from 1999. Until 2000, the ratio of industrial employment in Korea fell down to a similar level to the average level of developed economies (see Table 4.7).

The industrial employment ratio was far lower than that of Germany, Japan and Italy, countries whose economies still depend on traditional manufacturing industries (which make up more than 30 per cent of total employment). What must be indicated here is that the speed of de-industrialisation has been faster than in any other of the advanced economies. Between 1990 and 2000, industrial employment in Korea diminished by 7.4 per cent, whilst the G7 average decreased by 3.9 per cent and the OECD average decreased by only 1.9 per cent. In addition, the ratio of regular employment in the total paid employment figures also decreased significantly. From 1999, irregular types of employment (temporary and daily workers) began to make up more than half the paid employment figures (see Table 4.4). As a result, along with the fast decreases of industrial employment, the flexibility of the labour market has been significantly reinforced.

Some indicators concerning household structure and family behaviour also show the trend of transformation toward a post-industrial society. As seen from Table 4.5, women's economic participation has continuously increased for the last two decades at

the expense of a rapid decrease in the fertility rate⁷. Like in advanced economies, dual earner households have become popular in Korean society, especially among young couples. Since public social services offering maternity support and child fostering have not been developed, the increasing economic activity of young, married women has resulted in a rapid reduction in the total fertility rate. Korea's fertility rate fell down to 1.13 in 2002, which is the lowest level in the world alongside Italy (see Table 4.7). In addition, traditional family values have become weak and family dissolution phenomena began to occur during the 1990s. The divorce rate leaped up to the world's highest level. Single households increased rapidly; this was not only due to an increase in young people living alone, but also due to a rapid increase in single elderly people, who had previously lived with their adult children. Coupled with a declining fertility rate, the increase of single households resulted in a reduction in the average number of household members.

Table 4.6. Demographic Structure and Dependency Ratio

	Population (thousand)	Demographic Structure			Dependency Ratio	
		a. 0-14 (% of total)	b. 15-64 (% of total)	c. 65+ (% of total)	Elderly (c/b, %)	Total ((a+c)/b, %)
1980	38,124	34.0	62.2	3.8	6.1	60.8
1985	40,806	30.2	65.6	4.3	6.5	52.6
1990	42,869	25.6	69.3	5.1	7.4	44.3
1995	45,093	23.4	70.7	5.9	8.3	41.4
2000	47,008	21.1	71.7	7.2	10.1	39.5
2010	49,594	17.2	72.1	10.7	14.8	38.7
2020	50,650	13.9	71.0	15.1	21.3	40.8
2030	50,296	12.4	64.6	23.1	35.8	55.0

Source: NSO, [<http://kosis.nso.go.kr/cgi-bin>]

However, in terms of the ageing population which has already been indicated as one of the most important internal pressures to the fiscal viability of mature welfare states, it is hard to say that Korean society has already entered the post-industrial stage (see Table 4.6). In 2000, the proportion of elderly began to make up just over 7 per cent of total population as ten working age persons were needed to support one elderly

⁷ Korea is also well known for its unprecedented achievement in birth control policy since the early 1960s, and it was not until 1996 that the policy was formally withdrawn.

person. At least within next two decades, the severe pressures driven by an ageing population would not be near at hand in Korea. However, what is more important is, again, the speed of ageing. It is expected that, according to the official population prospect, it would take only 20 years to transform from an ageing (7 per cent) to an aged society (14 per cent). In 2040, the elderly dependency ratio would reach 51.6, which means two working age persons should take responsibility for supporting one elderly person (see Appendix Table 3-6). Not only would the ageing speed be the fastest in the world, but also, alongside Japan and Italy, Korea would record one of the highest elderly dependency levels among OECD countries until the year 2040. Such an ageing pressure would make an enormous financial impact on pension and health schemes. Although Korea's National Pension Insurance schemes have not matured, there have already been continuous trials for pension reforms in order to improve their long-term sustainability⁸.

Table 4.7. Major Indicators of Post-industrialisation: International Comparison

	Industry Emp. ¹		TFR ²		Fe. Lab. Force (TE) ³		Dep. Ratio, Elderly ⁴	
	1990	2000	1990	2000	1990	2000	1990	2000
Canada	24.4	22.6	1.8	1.6	44.0	45.8	16.6	18.3
France	31.0	24.7	1.8	1.9	43.4	45.1	21.3	24.7
Germany	40.9 ⁵	34.5	1.5	1.4	41.8	42.3	21.7	23.3
Italy	32.3	32.4	1.3	1.2	36.7	38.5	22.3	26.9
Japan	34.1	31.2	1.5	1.4	39.8	41.4	17.2	25.2
UK	32.3	25.4	1.8	1.7	42.4	44.1	24.1	24.6
US	26.2	22.9	2.1	2.1	44.3	46.0	18.9	19.2
G7	31.6	27.7	1.7	1.6	41.8	43.3	20.3	23.2
OECD	29.9	27.0	1.7	1.7	41.7	43.4	19.2	21.6
Korea	35.4	28.0	1.8	1.3 ⁶	39.3	41.4	7.2	9.4

1. See the note of Table 9.5

2. Total Fertility Rate (births per woman)

3. Female labour force as % of total employment

4. The ratio between working age population (15-64) and elderly population (65+)

5. 1991

6. 2001

Sources: see Table 4.6

⁸ For details, see chapter 7.

In conclusion, it seems evident that the transformation of Korea's economic and social structure in the 1990s has revealed some post-industrial features, despite the dominant remnants of the features of an industrial society. If a line were drawn following the ratio of industrial employment between 1980 and 2000, then the shape should be an inverse U curve. Indicators regarding family dissolution and household structure also indicate similar post-industrial phenomena to those that other advanced countries have already experienced. Moreover, such internal pressures have been more intense, as the economic crisis of 1998 caused various social problems like homelessness, mass unemployment, inclining irregular employments and other family dissolutions (Cho SH, 1999; Jung YT, 1999; Jung WO, 1999; Kim JK, 2001; Kim SC, 2001; Kim SK et al., 2001). Really, the transformation to a post-industrial society has been taking place as fast and condensed as previous industrialisation processes did. However, the demographic pressures have not been realised yet. On the whole, it would maybe be more correct to say that, features of industrialisation and post-industrialisation processes were revealed together in the 1990s. At least, it seems evident that, whatever these changes are called, such internal pressures have become important environmental factors.

4.2. Political Institutions and Welfare Politics In Korea

4.2.1. Political Institutions: Democratisation and Social Pact Institutions

The political economy of Korea between 1961 and 1987 can be distinguished by two distinct factors; one is the Export Oriented Industrialisation (EOI) dominated by the government and the other is the 'hard authoritarianism' of military regimes based on cronyism between the state and business. Regardless of direct involvement in the distribution of imported capital to privileged large firms, the authoritarian governments have intervened in industrial relations directly through repressive labour controls. Although business provided the regime for the political rents that were required to

maintain the political bases of the regimes, the state basically enjoyed strong political autonomy from society⁹. Procedural democracy was not established, labour was not mobilised, and civil society remained at what Weigle and Butterfield (1992) define as a defensive civil society which was mostly controlled by the regime.

When the regime refused the amendment of Constitutional law to allow a direct Presidential election in 1987, when people's claims for democratisation abruptly exploded against the military regime. Millions of people, students and workers marched on the street and protested for political democratisation. Finally, the Presidential candidate of the ruling party, Mr. Rho, accepted the direct Presidential election. Such movements for democratisation continued within the labour movement. Based on a rapid mobilisation of the working class, there were a great number of strikes between 1987 and 1989, and numerous workers participated in the labour movement. In the period of the 'Great Struggle of Labour' in 1987, more than 3,700 strikes were reported and roughly 1.3 million workers fiercely resisted the capitalist exploitation and the repressive state. The state's control over labour on the behalf of employers and most of the restrictions on unionisation were withdrawn with the enactment of the New Labour Law of 1987 (C.I. Park, 1996). It seems evident that the democratisation of 1987 has changed the basic landscape of Korean politics, even though the political activities of trade unions were still prohibited and regime change via the opposition party failed.

Korea's democratisation after 1987 not only meant the maturing political democracy. The political democratisation led to democratic presidential elections resulting in peaceful regime change, and in the 1997 Presidential election a pro-welfare President (Kim Dae Jung) was elected. Considering the Constitutional polity of the Korean political system – a strong Presidential system, the birth of a President with a pro-welfare attitude could influence the overall position of the government on social welfare issues. Furthermore, the democratisation has also provided the basic preconditions for the operation of 'real' welfare politics, beyond the monopolised policy processes of the state (B.H. Park, 2001). Free from the great shadow of the authoritarian state, the labour movement began to stretch itself and civil society was brought back as a watchdog vis-à-vis the state and business. Although the state's dominance and the

⁹ The state's control over capital, based on bureaucratic elites insulated from social actors, was also accompanied by more direct policy instruments. This trend, despite differences in degree, continued until 1987. The state decided a priority of investment, imported foreign capital and allocated it to domestic firms. For the role of the state in industrialisation processes and economic development, see Amsden (1989).

power of business have continued in social policy processes, it is also true that various social groups have raised their own voices when social welfare issues have arisen. The activists who had dominated the democratic movements in the 1980s permeated to civil society, and the new CSOs have widened their voice mechanism into welfare politics since the mid-1990s. After all, the situations of CSOs as well as business and labour have risen as influential political actors and they often participate in social policy making processes.

The political democratisation of 1987 is especially important in terms of creating the momentum for the explosive trade union movements between 1987 and 1989 because the reinforced trade unionism has provided a basic condition for the social pact politics that have been continuously experimented with since 1990. Due to militant strikes and industrial disputes, the average increase in real wage rate exceeded 10 per cent between 1988 and 1990. Business and the state could not force labour to accept a one-sided wage restriction anymore. They had to recognise labour, which had grown as a social partner on the back of the political democratisation. As a result, the necessity for a social pact mechanism, where the mobilised labour and business could deal with a set of comprehensive issues on wage and social welfare emerged. Experiments with social pact politics were consistently attempted throughout the 1990s and the dynamics of welfare politics were revealed more evidently under the frame of social pact institutions (B.S. Yoo, 2003; Choi et al., 1999; Choi et al., 2000). Before the Crisis, the social pact politics were experimented through the Wage Agreement Council (WAC, 1990-1997), the National Economic and Social Conference (NESC, 1993-1994), the Presidential Committee on Industrial Relation Reform (PCIRR, 1996-1997), and, after the Crisis, through the Tripartite Committee (1998 afterwards). In conclusion, while the political democratisation has become a basic preposition for the working of welfare politics, a set of social pact experiments during the 1990s sought the institutionalisation of welfare politics.

4.2.2. Defining Main Actors of Welfare Politics

The Government

Although the political democratisation since 1987 has created the basic conditions that meant various social groups have been able to participate in the social policy making processes which previously had been almost dominated by the professional government bureaucracy, it has hardly changed the fact that the government (the President and his Administration) has been the most important actor in Korea's welfare politics. As Shin indicates (K.Y. Shin, 2003: 11), until the Crisis of 1997 the government dominated policy development concerning social welfare issues, but excluding a few examples, neither trade unions nor employers' agencies had paid much attention to them. Especially, under the Constitution of a President-centred polity, the government's bureaucracy could not help substantially making the regimes' political interest (especially the Presidents') be reflected in the social policy making processes. It is not difficult to find examples that the civilian governments led by Kim Young Sam (1993-1997) and Kim Dae Jung (1998-2002) also manipulated them according to political necessity just as previous authoritarian regimes had implemented social welfare legislation to gain political legitimacy (K.R. Sung, 2002; Y.Y. Park, 2002). Since the President is to exercise a decisive power in all decision-making, their (and probably their professional staffs') recognition of the social welfare institutions has been critical in social policy making processes. It was especially true when intra-governmental conflicts between different government Ministries, usually between economic Ministries and social Ministries, were revealed (B.Y. Ahn, 2000).

Generally speaking, the government's social policy making processes are mainly related to the provision of state welfare, but the government as an actor in welfare politics has also had an influence on the welfare provisions of non-state sectors through their various interventions and regulations. In addition, the government continued throughout the 1990s to make efforts to institutionalise a social pact mechanism between labour and business (B.S. Yoo, 2003). Through borrowing the form of a social pact mechanism, the government sought to stabilise industrial relations now they could not depend on a physical repression, as previous military regimes had done. Within the framework of the mechanism, the government played a role as an arbitrator who induced a macro agreement between business and labour, which was to exchange wage restrictions and/or the labour market flexibility with an expansion in overall social welfare provision including enterprise welfare.

Political Parties

Different from the West, the politics of welfare in Korea have not been based on ideological orientation or the class-structure. The differences in policy agenda between political parties, therefore, are not so clear, although the democratic camp led by Kim Dae Jung revealed more pro-welfare characteristics. Except for a few reformative legislations passed by the National Assembly between 1988 and 1990 when the opposition parties of the democratic camp took a majority in the National Assembly (but the legislation was not implemented due to an execution of the President's veto), it is difficult to find examples where political parties and/or parliamentary politics have dominated welfare politics. Especially, as most alternatives concerning welfare reform since the Crisis have been produced by CSOs, trade unions, employers' agencies and the Administration, not by political parties. Their roles have been basically passive; they have just politically accepted (or selected) one of the existing alternatives raised by other groups (Y.M. Kim, 2001: 49-50).

Interest Groups

In a way similar to political parties, the role of interests groups and/or recipients groups (notably pensioners' group) has not been outstanding in welfare politics. This could be due to the fact that the expansion and the launch of social welfare institutions was concentrated in the period since 1987 – i.e., under the condition of immature welfare institutions, the emergence of interests groups surrounding them could not but remain weak. In other words, the immature welfare institutions have not yet produced interest group politics (or pluralist politics) in Korea (Y.M. Kim, 2001). For example, as Kim indicates, the voice of the pensioners' group, which has been one of the most powerful voices in pension reforms in most welfare states, cannot be found because full old age pension payments will not be initiated until 2008 (Y.M. Kim, 2004). The only exception was the 'specialisation of dispensary and medical practice' within the health reforms of 1999, where two powerful professional groups (doctors' and pharmacists' groups) produced a politics of conflict, but this was related to the earlier reform of Medical Insurance which was launched in 1977.

Labour (Trade Unions)

As indicated before, trade unions have not had a political party that speaks out for their interests, so they have had to express their position concerning social policy issues directly. Trade unionism at a national level consists of a dual system; i.e., the FKTU (Federation of Korea Trade Unions) and the KCDTU (Korea Confederation of Democratic Trade Unions). Both of them were very important actors in Korean welfare politics, but the dual system revealed a complex dynamic within labour as well as with business and the state (Y.M. Kim, 2001). Until 1996, the government only recognised the FKTU as a negotiating partner with legal status but excluded the KCDTU from social pact politics. The result was a crippled social consent that most workers could not agree with. Only when the government and business recognised the legality of the KCDTU in 1996, were the social pact politics that the government introduced after 1996 able to produce some outcomes (B.S. Yoo, 2003; H.Y. Sun, 2004). In terms of attitudes to the social welfare institutions, on the other hand, there were significant differences between labour groups (between the FKTU and the KCDTU), even though both of them basically leant towards a preference for the expansion of social welfare. Whilst the FKTU put its priority in the interests of its union members, the KCDTU argued for a more comprehensive welfare state model based on social solidarity.

Business (Employers & Employers' Associations)

As D.M. Shin (2000) indicates, Korea's social policy before the Crisis was basically business-friendly as the view of social welfare was that it should not be a barrier to economic development and the competitiveness of firms. Seen in this way, the interests of business had been reflected by the positions taken by the government. So it was not necessary for business to express a different voice from that of the government in welfare politics. Large firms accepted the government's interventions and regulations for expanding enterprise welfare in order to maintain stable industrial relations, and hardly protested against social insurance institutions at the initial stage because the burden on firms remained modest at best. When the government tried to perform an operation against the solid *Chebol* (large conglomerates) system during the Crisis,

however, business groups began to take a different stance from that of the government (especially on the negotiating table of the Tripartite Committee). The KEF (Korea Employers Federation) and the FKI (Federation of Korea Industries) are representative employers' agencies and their think tanks like the IKER (Institute for Korea Economic Research) and the CFE (Centre for Free Enterprise) have also played a significant role in terms of presenting the alternative ideas of business's (J.K. Kim, 2003). The business groups not only asserted the necessity of neo-liberal economic reform to overcome the Crisis, but also indicated that the expansion of social welfare under the Kim Dae Jung government would cause a rise in labour costs and, ultimately, a weakening of the competitiveness of firms. In addition, the business community was worried that the expansion of social insurance would crowd out the private insurance market (Y.M. Kim, 2001: 47). For business, the alternative, which employers' agencies argued for, was the expansion of the private insurance market and the privatisation of social insurance.

Civil Society Organisations (CSOs)¹⁰

Many indicate that the most outstanding feature of Korea's welfare politics is the role of CSOs which can hardly be found in other welfare states (Y.M. Kim, 2001; K.Y. Shin, 2002, 2003; Ahn, 2000). Y.M. Kim (2001: 48-49) asserts that in no social policy literature have CSOs been seen to have exerted such a powerful influence in welfare reform as they have done in Korea. Since 1997 CSOs have emerged as an important actor in welfare politics even though most of influential CSOs were founded in the late 1980s or the early 1990s. The People's Solidarity for Participatory Democracy (hereafter PSPD) was founded in 1994, the Citizens' Coalition for Economic Justice (hereafter CCEJ) in 1989 and Green Korea in 1991. As advocates of the whole population, and especially the unprivileged who could not easily mobilize their interests, they argued with the government that the social disruption caused by the Crisis should be coped with via an expansion of 'solidaristic' social welfare institutions. In this respect, they constructed a coalition with the KCDTU and did not hesitate in confronting the opposite social forces (like the KEF, the FKI, the Ministry of Finance and Economy and

¹⁰ In the study, the third sector of Korea is divided into NPOs (Non-profit organisations) and CSOs. While NPOs have provided direct social services under the state's support and supervision, CSOs have deployed social movements as advocates of others.

sometimes the FKTU) with the logic of the social solidarity or the public interest. Sometimes they constructed a critical-collaborative relationship, substantially a coalition, with the Kim Dae Jung government to overcome opposition to the welfare reforms proposed. Their role was decisive especially in public assistance, health and pension reforms between 1998 and 2000 (J.Y. Moon, 2001).

4.3. Institutional Legacies of the Welfare Mix and Related State Interventions in Social Welfare until 1987

As discussed in the previous chapter, the institutional legacies of welfare state programmes have been indicated as one of the most important factors in understanding the changes and reforms of developed welfare states under the influence of changing environments. However, for less-developed or emerging welfare states like Korea whose social insurance institutions have only just been universalised and would thus take many years to reach full maturation¹¹, the maturity effects of welfare state programmes – such as institutional stickiness, vested interests and programme-based coalitions – cannot be fully adapted. Instead we must focus on the wider shape of the previous welfare mix and the related interventions of the state in social welfare provision. It has often been argued that non-state sectors (especially the enterprise and family sectors) have taken significant roles in social welfare provision in East Asian countries like Korea and Japan, and this welfare mix structure could explain the low levels of state expenditure (Esping-Andersen, 1997; Goodman and Peng, 1996; Goodman, White and Kwon, 1997). In this respect, Kwon (1997) argues that, unlike Western welfare states, in Korea the state has maintained its main regulatory role in social welfare rather than taken a role as a direct provider and financer, therefore the state has been able to expand social welfare programmes without a direct financial burden. Accordingly, the interventions of the state, especially its regulatory role over

¹¹ National Health Insurance (or previously National Medical Insurance System) could be an exemption because it was universalised to the entire population in 1989. But, as I shall discuss below, in terms of its low benefit level and scope, it is difficult to assert that the NHI has fully matured.

welfare provisions in non-state sectors seem vital when looking to understand the overall welfare mix structure in Korea. If so, what are the typical interventions of the state and how have they contributed to the institutional legacies influencing welfare mix structure in Korea?

First, the income maintenance programmes have been heavily reliant on social insurance institutions but no universal benefits financed by general taxation have been introduced. This meant that it was possible without making a direct financial burden on the state. Since social insurance institutions have been almost exclusively financed by employers and employees, the payment capability for social insurance contributions was crucial for the expansion of coverage. So the initial coverage of social insurances programmes was restricted to employees of large and medium size workplaces and, before being expanded to employees of smaller workplaces and the self-employed. The state's financial support of the social insurance funds has been very low or almost negligible¹². Nonetheless, the state has mandated, regulated and controlled the social insurance system. As shall be discussed below, a principle of minimal financial responsibility has been consistently sought in the state's interventions in social welfare provision.

Secondly, instead of providing direct state welfare benefits and services, the state has encouraged or mandated social welfare provisions by non-state sectors through various interventions. Traditionally, the state has utilised third sector organisations in social service provision. Although traditionally its role had been marginal in social welfare, the third sector has provided most social services and, in turn, has been subject to the strict regulation and supervision as well as the financial support of the government. The state also prescribed mandatory enterprise welfare programmes through labour laws. Mandatory benefits like severance or retirement pay and paid maternity leave were introduced as a substitute for or complementary to the underdeveloped state welfare¹³. In addition, the state has had a preference for indirect tax expenditures as opposed to direct state provision, and it has encouraged the

¹² The state supports the administration costs and offers minimal aid for the contributions of the rural self-employed (the half of the lowest contribution thresholds) in national health insurance.

¹³ Once, the mandatory severance pays have played a role of pension and unemployment benefits for workers. But, even after universal coverage of National Pension insurance and Employment Insurance was established, they still remain as the largest part of enterprise welfare expenditure. It is one of the most interesting cases about 'institutional stickiness' or, more generally, path-dependent development. Detailed discussions shall be dealt with below.

expansion of welfare (insurance) markets and (voluntary) enterprise welfare provision.

Thirdly, strong familism is a fundamental feature in the welfare mix structure of Korea. The government has stressed the role of the family as the primary provider of welfare. In any welfare reforms and the long-term blueprint for social welfare¹⁴, the emphasis on family responsibility has never been abandoned. The most representative examples of the strong familism in the social welfare system are the underdeveloped social service systems and the strict entitlement conditions for public assistance benefits. The 'condition of support obligator'¹⁵ was not abolished even in the public assistance reforms of 1999. At least until 2002, there had been no proposals for universal social services or benefits that attempted to be a substitute for the role of family. Instead, the government has supported the role of the family through indirect tax expenditure such as tax credits for children, the disabled and elderly, and income deductions for household expenditure on social services

What then are defined as the institutional legacies of the welfare mix in Korea and how were the state interventions discussed above part of their make up? From now on, let me trace the development of the welfare mix until 1987 and extract the core features of the institutional legacies of the welfare mix, starting with state welfare.

4.3.1. State Welfare: Minimised Financial Burden of the State

An analysis of the institutional legacies of state welfare should start from the emergence of the authoritarian developmental state. In 1961, General Park Chung Hee and the young officers following him took power by a coup d'état in 1961 under the banner of 'sweeping corruption' and 'modernisation of the fatherland'. The lack of legitimacy for the military government forced them to show a blue print for a brighter future to people who had suffered from the Korean War and poverty. It is true, as known from the fact that the per capita GNP remained no more than 80 US dollars until 1960, most people

¹⁴ For example, National Welfare Planning Board, *Saegyewha* Committee (1996) and Presidential Committee for Quality of Life, Office of the President (1999, 2002).

¹⁵ The public assistance programmes of Korea have prescribed a set of entitlement conditions. One of the most important standards is the 'condition of support obligator' or 'breadwinner standard'. According to this condition, those who have any relative or family members able to support them cannot receive the benefits. Despite some amendment, the range of relatives and family members has typically included, not only parents and children, but also grandparents, grandchildren, son- and daughter-in-laws.

were in absolute poverty. The military government launched the first 'Five-year Economic Development Plan' (1962-1966) to develop the welfare system model in Korea, and also established the Social Security Investigation Committee (SSIC) within the Ministry of Health and Social Affairs in 1962. For the first five years of Park's military regime, Korea accomplished an average 8.5 per cent level of economic growth (see Table 4.8.). Within 3 years, massive social welfare legislation was enacted; first came public assistance legislation, the Livelihood Protection Law (1961) and the Disaster Relief Law (1962); second, as social insurance enactments, the Military Personnel Pension Law (1963, hereafter MPP), the Industrial Accident and Injury Compensation Insurance Law (1963, hereafter IAICI), the Medical Insurance Law (1963, hereafter MI); and third, as a social service legislation, the Children Welfare Law (1961) was launched (C.S. Nam, 2000; B.H. Park, 2001).

However, the numerous initial legislations were just declarations and came far from real implementation. The public assistance system was not implemented until 1969, the MI programmes began to be implemented without a compulsory coverage stipulation and the IAICI initially covered only workplaces with 500 or more employees. Alongside the existing Government Employee Pension Scheme (1960, hereafter GEP), only the MPP scheme was launched as planned, in order to attract the loyalty of the core governance forces – civil servants and soldiers. According to C.S. Nam (2000: 22-23), these features revealed corporatist-conservative as well as liberal features. First of all, the initial stage of the Korean welfare state can be described as corporatist-conservative because the military regime tried to pursue stratification by separating special occupational groups (public officers and soldiers) from general people within social insurance institutions. Another reason why the regime hesitated to implement social welfare legislation which stands as evidence of the traditional logic of a liberal perspective, was that due to the economic concerns the social welfare system had to be restricted so as not to obstruct economic growth and the industrialisation process. Even from the earliest stage the authoritarian military regimes manipulated the social welfare system as an instrument for governance and control over society and the economy. Statutory social services (residential services for the needy) and public assistance programmes were based on the strong familism, i.e. the subsidiarity principle that the state only intervenes when family functions fail, and their coverage was restricted to very poor target populations whose family members could not care for them. The use of

the social welfare system by military regimes as an instrument for ensuring political legitimacy continued until 1987 (H.K. Lee, 1993: 73).

When Park's regime reinforced its coercive governance through amendments to the Constitution in the early 1970s, the strong state restated its political and economic intentions in the state welfare more actively. The government legislated for the National Welfare Pension Law (1973) as a compulsory pension scheme covering general workers. The purpose was two fold; the first was to mobilise the domestic capital required for the construction of heavy manufacturing industry through compulsory saving, and the other was to attract loyalty to the regime. However, the pension system failed to be implemented because of the Oil Shock in 1973. As the governance mechanism of the regime became more coercive during the 1970s, the government's concerns for social welfare were reduced. As seen from Table 4.8, compared with the fast-growing economic ability, the social welfare expenditure of the central government as a percentage of GDP shrank even though the MI and the medical assistance programmes were being implemented from 1977. As a matter of fact, the implementation of compulsory medical insurance programmes did not amount to a higher financial burden on the state at all. The basic feature of the expansion of the social insurance system has been the state's fiscal neutralisation and the top-down expansion of coverage. The state designed all the social insurance systems so as not to burden its contribution to the funds, so compulsory coverage started from the larger workplaces where employers could pay social insurance contributions without state aids. Moreover, the 'low-contribution and low-benefit' principle of social insurance was retained due to the economic concerns (Kim and Sung, 1993; H.K. Lee, 1993).

Even when the new military regime took over from Park's in 1980, the basic features had hardly changed even though there was a second massive wave of social welfare legislation in the early 1980s and the coverage of the Medical and Industrial Accident Compensation Insurances were expanded. The new military regime led by generals Chun¹⁶ and Rho¹⁷ took power during a very unstable political and economic period caused by the assassination of Park and the second Oil Shock in 1979. The regime strengthened their repressive control over labour and the democratisation movements, and it pronounced the liberalisation and deregulation of the market. At the

¹⁶ The 11th and 12th President (1980-1988).

¹⁷ The 13th President (1988-1993).

same time, the regime declared the ‘realisation of the welfare state’ as a political rhetoric. In 1981, a set of social service legislations passed the National Assembly, including the enactment of the Elderly Welfare Law and the Disabled Welfare Law, and a full amendment of the Child Welfare Law. The coverage of the MI was expanded to workplaces with 100 or more in 1981 and 16 or more employees in 1983. In 1982, the coverage of the Industrial Accident Compensation Insurance widened to workplaces with at least 10 employees from those with 100 or more employees in the 1970s.

Table 4.8. Historical Trends of Major Economic Indicators and the Social Welfare Expenditures of Central Government: 1961-2002

	Economic Growth Rate (GDP ^a)	Consumer Price Increase rate	Total Gov. Exp. ^b as % of GDP ^a	Gov. Social Welfare Exp. ^c	
				% of total Gov. Exp.	% of GDP ^a
1. 5-year average since 1961					
1961-1965	8.5 ^d	-	23.8	3.2	0.7
1966-1970	11.4 ^e	12.3	23.5	2.7	0.6
1971-1975	7.9	15.6	20.4	1.5	0.3
1976-1980	7.0	17.4	20.9	1.7	0.4
1981-1985	7.8	7.3	20.3	2.4	0.5
1986-1990	9.5	5.4	17.8	3.6	0.6
1991-1995	7.5	6.2	18.6	4.7	0.9
1996-2000	4.6	4.0	22.7	4.9	1.1
2001-2002	5.4	3.4	25.4	7.4	1.9
2. Trends of 5-year Average according to Regime Changes ^f					
1988-1992	8.0	7.4	17.9	4.6	0.8
1993-1997	6.9	5.0	19.5	4.3	0.8
1998-2002	4.4	3.5	24.8	6.1	1.5

a. GNP until 1970

b. including general and special accounts

c. Expenditures of the central government on social insurance, public assistance and social services

d. 1962-1966

e. 1967-1971

f. Rho Tae Woo (1988-1992); Kim Young Sam (1993-1997) and Kim Dae Jung (1998-2002) Government Sources: Bank of Korea, *National Accounts*, various years; Korea Development Institute (1987), *Korean Public Finance for Last 40 Years*; Shin (2000: Table 4.12 and 6.12); Ministry of Health and Welfare, *Statistical Yearbook of Health and Welfare*, various years.

However, as stressed repeatedly, the legislation and the expansion of coverage in the early 1980s should be understood within the same context as the previous regime. Although it is evident that this legislation contributed to welfare state expansion in some respects, they were basically implemented for the purpose of securing the regime's political legitimacy. In reality, the corporatist and liberal nature remains intact; the occupational division of the social insurance system was maintained, the introduction of Unemployment Insurance was cancelled under the reasoning of the 'welfare disease' and, different from their formal orientation towards universalism, the real contents of the social service programmes enacted during this period were restricted to low-income families (C.S. Nam, 2000: 27).

To sum up, under the authoritarian regimes, the major policy concerns concentrated on economic development, but state welfare programmes were only considered in order to gain their political legitimacy. The basic principles underlying social policy were that state welfare programmes should not be an obstruction to economic growth and that the financial burden on the state had to be minimal. So, income maintenance programmes were constructed mainly utilising social insurance and their coverage was restricted to the workers in large workplaces whose employers could pay the contributions. The minimised financial burden on the state was also aided by the strong familialism in public assistance and statutory social services. The state intervened only when the family failed. Really, the state was very hesitant to be a direct financier and minimised the scope of its direct welfare provision in social welfare. But, instead, it encouraged the welfare provisions of the non-state sectors and exercised a strong regulatory power over them, as shall be discussed afterwards.

4.3.2. The Market Sector: Growing Private Insurance Markets and Market Dominance in Health Expenditure

In Korea, since the role of the state in social welfare had remained residual, the welfare needs of most people should have been generally dependent on non-state sectors. Except for some privileged employees who enjoyed a substantial level of social protection from occupational pension schemes, medical insurance and the IAICI¹⁸, most

¹⁸ Public employees, military personnel and private school teachers had been covered by some

of the private employees in relatively small workplaces and the self-employed were virtually excluded from not only public social welfare programmes but also generous enterprise welfare programmes. So, until then, the welfare provisions of the non-state sectors for most people meant family provisions or individuals' market purchases¹⁹.

Table 4.9. Principal Indicators of Insurance Business: 1975-2002

(per cent of GDP)

Year	Premium Written			Claims Paid			Invested Assets		
	Life	N-L	Total	Life	N-L	Total	Life	N-L	Total
1975	0.7	0.7	1.4	0.3	0.3	0.6	1.0	1.0	1.9
1980	1.6	1.0	2.6	2.5	0.9	3.4	0.8	0.6	1.4
1985	4.9	1.3	6.2	3.1	0.7	3.8	8.2	10.	9.2
1990	9.0	2.0	11.0	5.1	1.2	6.3	16.6	2.2	18.8
1995	9.4	2.9	12.3	5.9	1.5	7.4	17.4	2.8	20.1
1997	10.8	3.6	14.4	9.1	1.7	10.8	19.0	3.6	22.6
1998	10.4	3.2	13.7	10.3	1.6	11.9	18.7	4.1	22.7
1999	8.6	3.0	11.6	7.8	2.2	10.0	19.7	4.4	24.1
2000	8.9	3.2	12.1	7.2	2.2	9.4	19.1	4.2	23.4
2002	7.4	3.4	10.8	4.4	2.1	6.5	22.3	4.9	27.2

Sources: KIDI, *Insurance Statistics Yearbook*, various years.

Especially, related to welfare markets, the insurance industry grew fast during the 1980s (see Table 4.9). The total earned premium of insurance industries was 1.4 per cent of GDP in 1975 and the figure rose up to 2.6 per cent in 1980. In 10 years, the scale of insurance markets became approximately 5 times larger, from 2.6 per cent to 11.0 per cent of GDP. In 1990, in terms of the earned premium as per cent of GDP, Korea had the 9th largest insurance market in the world, compared with 25th in 1982 (KIDI, 1983 and 1991). It was largely due to the enormous growth in life-insurance markets during the

occupational pension schemes and medical insurance until the mid-1970s. For employees in large workplaces, along with a substantial level of enterprise welfare, they had been entitled to the IAICI and medical insurance until the 1970s.

¹⁹ However, the development of market provisions in social welfare such as individual pension, private health insurance and purchases of private welfare services has been relatively recent one (mostly in the 1990s). So, until the late 1980's, what could have been regarded as welfare markets had been financial savings in private insurance companies and individual payments for medical services, which were not covered by social insurances. Hence, in order to understand the importance of welfare markets before the 1990s, we need to see the financial market in general.

1980s. It is possible to say that such a fast growth of the private insurance markets indicates how much people had to depend on the market sector in meeting their welfare needs when the state welfare remained residual.

If private insurance markets exclusively depend on individual contributions, on the other hand, the working of market principles in traditional social welfare areas until the early 1990s can be found in the individual payments for health services. Until 1977 when the Medical Insurance was launched, people should have paid all the fees for medical treatments directly. As the coverage of the Medical Insurance had been expanded, however, the number of people who had to pay all the fees for medical services had decreased. The Medical Insurance (the National Health Insurance after 1998) had covered only 29.8 per cent of people in 1980 but its coverage was universalised in 1989. Nevertheless, the benefit level and scope have been low and the proportion of individual payments for medical treatment has always been substantial; the burden of households in the gross health expenditures was 60 per cent in 1985, 53 per cent in 1990 and 51 per cent in 1995 (Chang et al, 2002: 96). It was, and still is, because the real benefit level of most of the expensive medical treatments and services was low or none. So, the financial burden of individuals was exceptionally high when they or their family faced a serious illness and the availability of expensive medical treatments was highly dependent on the payment capability of individuals or households²⁰.

To sum up, under a situation of undeveloped public income maintenance programmes, private insurance markets (especially the life-insurance market) grew very fast during the 1980s. Additionally, the low benefit structure of the Korean medical insurance system nurtured resulted in high individual payments on health services, so the market dominance in the health expenditure did not change even though the coverage of the Medical Insurance was enlarged during the 1980s.

²⁰ Because of its adoption of a fee-for-service system as a retrospective payment, when the government severely control the price of medical services, health service providers have an incentive to provide either expensive medical services not covered by the NHI, or overuse medical treatments to get greater reimbursement from the NHI (Lee et al., 1999: 38).

4.3.3. Enterprise Welfare: Substitute for State Welfare

In Korea enterprise welfare has meant more than mere fringe benefits. Korea's initial programmes were introduced as a means to exert control over the low-wage labour force during the first stage of industrialisation. As the power of the trade unions has grown, it has been developed as the main pillar of industrial relations to maintain industrial peace. Most of all, the state has encouraged, or sometimes mandated, private firms to provide enterprise welfare benefits, as a kind of macro labour and industrial policy. In this respect, alongside the role of the family, it has offered a *de facto* substitute for the residual state welfare, regardless of its distributional effects (Choi, 1992; Song, 1994, 1995; Hong, 1996, 1999; Park, 1997). In this part of the section, I will trace the development of the enterprise welfare until 1987.

Until 1961, the Korean economy was highly dependent on international aid and achieved hardly any economic growth. Since the main industry of Korea was agriculture, the scale of non-agricultural employment was very small, whilst less than 8 per cent of the working age population were employed in mining and manufacturing industry. The unemployment was pervasive and most workers were exploited under very poor working conditions. The first labour legislation, the Labour Standard Law was enacted in 1953. Although the law prescribed retirement pay as an enterprise welfare benefit, it was not a compulsory stipulation. Moreover, the major purpose of the law was to suppress labour unionism and socialism, rather than improve working conditions. In this period, employment *per se* was regarded as welfare. There was no substantial enterprise welfare, nor state welfare.

As discussed above, genuine industrialisation was launched in 1962 when a military dictator, General Park, occupied power through a coup d'état, in order to legitimate his regime. The Export Oriented Industrialisation (hereafter EOI) based on low labour costs formed the main strategy of the authoritarian military government. The state initiated the EOI whilst private enterprises have provided its engine (Johnson, 1987). In the earlier stages, the military government seemed reformist, but the government soon formed a ruling coalition with business, though an exchange of economic privilege for political rent. The EOI of Korea was based on the two direct government interventions in tandem, i.e. repressive labour control on the one hand, and nurturing domestic capital accumulation through credit allocation on the other. As there

was not a substantial level of capital and advanced technology in the 1960s, the EOI meant encouraging labour intensive industry. So it was important to maintain low wages and to control labour forces. Although mandatory severance pay was legislated for in 1963 and enterprise welfare appeared in 1960s, most programmes remained a basic level related to workers' livelihood, such as dormitory provision, medical care and a canteen (see Table 4.10). Moreover, these programmes were also directly connected to the employers' considerations about productivity through direct physical control. More importantly, the inequality of enterprise welfare between large and small workplaces had already appeared (Hong, 1999: 174). The initial compulsory coverage of mandatory severance pay was restricted to workplaces with 30 employees or more, so the scheme covered only 5 per cent of total employment in 1966. In addition, it was only possible for relatively large workplaces to provide the voluntary programmes.

Table 4.10. Diffusion of Major Non Statutory Enterprise Welfare Programmes Before the Financial Crisis in Korea

Programmes	Before 1961	1962-1972	1973-1987	1987-1997
Catering or Canteen		(*)	*	*
Dormitory, Company House		(*)	*	*
Medical Facility		(*)	*	*
Aid for Ceremonial Occasions		(*)	*	*
Mutual Aid Association		(*)	*	*
Culture, Sport and Recreation			(*)	*
Vocational Training			(*)	*
Evening School			(*)	*
Credit Association			(*)	*
Saving Support			(*)	*
Education Support			(*)	*
Housing Loan				(*)
Intra-Company Welfare Fund				(*)
Enterprise Pension Plan				(*)

(*) Introduction and Expansion

* Generalisation

Source: Song, 1995: 37; Hong, 1999: 172.

With the launching of heavy manufacturing industries based on the manual male labour forces, the President Park, who experienced a legitimacy crisis during early the 1970's, strengthened the basis of his political authoritarianism. As can be seen from the

restriction of labour rights as well as wage controls, labour was thoroughly excluded and repressed. From 1980 the state forced an artificial industrial peace through legislating the establishment of 'labour-business councils' in firms. At the same time, the state's control over capital, based on bureaucratic elites insulated from social actors, was also accompanied by more direct industrial policy instruments. This trend, despite differences in degree, continued until the 1980s. The state decided for a priority on investment, imported foreign capital and allocated it to domestic firms. So the state enjoyed a high level of relative autonomy vis-à-vis business. Firms (mostly *Chebols*) grew dramatically during this period, but they were sometimes forced to provide enterprise welfare at the expense of low wages maintained through the state's labour policy. The compulsory coverage of mandatory severance pay was extended to workplaces with 16 or more employees through an amendment of the Labour Standard Law in 1975, and 44 per cent of paid workers were covered by the programme in 1980 (see Table 4.11). Basically, despite its deferred wage nature²¹, the main function of mandatory severance pay was to act as a substitute for pensions and unemployment benefits when state welfare was virtually absent for general workers in the private sector (Bang et al., 2001; KEF, 1999; FKI, 1999b). Also, along with the state's interventions like the *Saemaul* Movement (a government-dominated campaign since 1973), new kinds of voluntary enterprise welfare programmes were introduced to support the livelihoods of workers between 1972 and 1987. Such programmes as cultural and recreational facilities, vocational training, evening schools for juvenile labour forces, and support for workers' individual savings and school fees were a supplement to the low wage system (see Table 4.10).

In summary, until 1987 the labour intensive industry of Korea required a maintenance of a low-wage system and industrial peace, and the state took a coercive line on labour policy. The policy was committed to the harsh repression of trade unions and industrial disputes. Based on the 'hard authoritarianism' of the state, employers were free riders on the state's labour policy. The authoritarian state not only took a major role in industrialisation and industrial relations, but was also the most important determinant of the expansion of enterprise welfare. For the cost of low wages and industrial peace maintained by the state's coercive labour policy, the employers had to

²¹ The judicial precedents of the Supreme Court of Korea as well as the prevalent view in labour law define mandatory severance pay as a deferred wage (J.L. Im, 2002).

provide enterprise welfare benefits and programmes for their workers as the state levied the responsibility for workers' welfare to employers. As a result, for core workers, the enterprise welfare benefits not only supplemented their low wage, but also were a substitute for the undeveloped state welfare programme. However, those facing relatively inferior working conditions (irregular workers and the employed in small workplaces), were often excluded from most of the enterprise welfare benefits and major social insurance schemes.

Table 4.11. The Coverage Expansion of Mandatory Severance Pay

	Compulsory Coverage (size of workplace)	No.of workers covered (Thousands)	Percentage of total employed	Percentage of total paid employed
1966	30 or more	453	5.0	-
1975	16 or more	1,228	11.7	-
1980	16 or more	2,841	19.7	44.0
1985	10 or more	3,786	24.3	46.7
1990	5 or more	5,366	29.0	49.0
1998	5 or more	5,786	29.7	47.1

Source: Bang et al, 2001: 3; Korea Labour Institute, *KLI DB 2.5*, 2000.

4.3.4. The Third Sector: Entrusted and Subordinated NPOs in Social Service Delivery System

The process of third sector development has been reflected in the rapid social changes since the 1960s. J.K. Kim (2000) argues that the legacies of rapid industrialisation have been influential on the third sector; i.e., just as the government has intervened in the market through allocating subsidies and credits as well as various regulation policies in order to 'strategically foster the growth of targeted industries', it has also induced the growth of the third sector. Under the circumstance of its dominant position *vis-a-vis* civil society, the state has not only increased its financial support to the third sector, but also utilised the third sector to provide social services that have been considered to be the government's responsibility (J.K. Kim, 2000: 10). The state's dominance in the development of the third sector, what Salamon and Anheier (1996) call the 'statist' feature, has been commonly indicated in many studies as a predominant feature of the

third sector in Korea²² (J.M. Baek, 1994, 1997; J.K. Kim, 2000a; H.T. Kim, 2000b; H.K. Lee, 1998, 2000).

The origins of the state interventionism had already emerged during the 1950s. When the Korean War produced explosive welfare needs, foreign aid organisations dominated in providing the relief for the poor and needy. Although the government hardly contributed to social services in terms of delivery and finance due to its scarce financial capability, it chose an evident interventionist stance in terms of regulation (S.Y. Moon, 2000; H.K. Lee, 1998: 55). It decided who deserved to run welfare institutions as well as how those institutions should operate. It franchised, controlled and supervised social welfare institutions through various legal mechanisms.

Under the authoritarian military regimes, as mentioned above, economic development had been the only invincible goal of the regime and social welfare system should not have hindered that goal. In other words, the social welfare system of Korea could not have escaped its instrumental and residual nature. As a result, institutional care for the needy, whose family could not care or did not exist, formed the dominant social service provision until the late 1980s. The state intervened when the family failed. In 1970, the entrusted and subordinated relationship, which still remains as the most significant feature of the social service system in Korea, between the state and third sector organisations in social service provision was institutionalised through the 'Social Welfare Service Act'. The purpose of this law was to define the basic principles of social services, including the state's responsibility for social services, the scope of social welfare services, the licence of social workers and the introduction of a social welfare incorporation system (H.K. Lee, 1998: 58). The 'social welfare incorporation' system

²² On the other hand, some have recently argued that the Confucian tradition has influenced the structure of the third sector (Yoo and Chang, 1998; H. Kim, 2000). In Korea, the influence of various affinity groups based on blood, region and school has remained pervasive, and particularism, paternalism and personal networks still work within people's everyday life (Yoo and Chang, 1998: 127-137). Similarly, H. Kim (2000) argues that the Confucian tradition has formed particular third sector organisations different from Western civil society. Instead of civic, professional and political associations, neighbourhood associations and affective linkage groups are more popular in Korea. These types of organisation, based on Confucian culture, have been the main target of criticism because their particularism has been regarded as an obstacle to civil society development as well as modernisation in Korea. However, Yoo and Chang (1998: 139-144) assert the role of affinity groups as an alternative that can connect individuals to the community. Also, H. Kim (2000) argues that those affinity groups and their vertical networks have produced social capital in Korea, and at the same time, the state's paternalistic interventions have encouraged those particular third sector organisations. However, aside from the conceptual and functional ambiguity whether those affinity groups can be understood as part of the third sector, it is almost impossible to estimate the reality, scope and scale of those affinity groups. Accordingly, the difficulty in estimation as well as the conceptual ambiguity makes affinity groups be excluded from analysis of the development of the third sector in Korea.

can be characterised as a particular social service system to Korea (especially in institutional social services), and as the exact basis of the peculiar government-third sector relationship. The government has consolidated this system by entrusting the services under its responsibility to private organisations rather than providing the services through its own delivery agencies. Social welfare corporations can receive public funding but are obligated by the government to be entrusted with the ‘welfare replacement’²³, and, at the same time, they are under the special supervision and guidance of the government. They are also entitled to levy and collect service fees from users (H.K. Lee, 1998: 59). As a result, the subordinated status of NPOs providing social services was institutionalised, and they have been placed as the vendors of the public sector. This institutional feature regarding the third sector and the government relationship has been called the ‘collaborative vendor model’ (Moon, 2000; H.K. Lee, 1998).

On the other hand, until the late 1970s, almost all the foreign aid organisations had withdrawn, and thus caused a lack of funding for social welfare institutions. Since this meant a significant limitation on budgetary increases, the government began to encourage the de-institutionalisation of social services. Although the social welfare related legislation of the early 1980s was based on universalism, the social welfare system was not expanded significantly until the late 1980s. Instead, the government’s strategy utilising the third sector as its agent had been consolidated.

In terms of the advocacy function, the activities of third sector organisations were the target of the government’s control. According to J.K. Kim (2000: 8), until the end of the military regimes, QUANGO²⁴s had served the government in terms of manipulating people’s recognition and public opinion through their campaigns (e.g. ‘*Saemaul* Movement’ and ‘*Bareugae-salgi* Movement’). Since establishment was dominated by and their funding highly dependent on the government, the state often controlled their activities and operations. So mainstream civil society played only the

²³ ‘The entrustment of welfare placement’ means that the government entrusts its legal social welfare services and provides grants for the service costs to private institutions. The basic notion of the concept is that public financial support should be deservedly accepted when NPOs care for the needy for whom the government is responsible. However, as direct grants may impinge on the independence of NPOs, ‘the entrustment of welfare placement’ was introduced to maintain a superficial ‘independent’ relationship between two sectors. Nonetheless, the NPOs cannot refuse ‘the entrustment of welfare placement’ because it is defined as a legal obligation (H.K. Lee, 1998: 60).

²⁴ Quasi-Non-Governmental Organisations (Hereafter QUANGOs) are subject to the control of the government. Although superficially these organisations are independent from the government in definition, their operation is severely dependent upon the government’s support.

marginal roles allowed by the regime. However, those organisations, which opposed the government's control, became the target of political repression (P.M. Yoo, 1998: 80). Substantially, the activities, if not the existence, of civil society organisations, themselves, had been legally legitimised, yet remained marginal. The dominant form of social movement was 'illegal' demonstrations against the military regimes, which were organised by 'underground' social movement organisations (D.Y. Cho, 1999: 118). So the advocacy function of the third sector was marginal or repressive during this period, and the target of social movements was concentrated on political democratisation, rather than on social welfare issues.

To sum up, until the late 1980s, the state intervened in social services only when the family failed. So the coverage of social services was extremely restricted to narrowly defined target populations, and the dominant type of social services was residential care. In the delivery of statutory residential services, the government utilised third sector organisations. It entrusted its responsibility for care to the organisations with substantial financial support and, at the same time, exercised a strong regulatory power over them. Under these situations, the third sector organisations were virtually subordinate to the government, but the advantages of third sector provision such as diverse services and pioneering new services could not be expected. Moreover, as the authoritarian regimes controlled civil society, the voice mechanism of the (underground) social movement organisations was focused on political democratisation, rather than on the welfare issues.

4.3.5. The Family and Household: Primary Welfare Source

For the thirty years between 1960 and 1990, Korea transformed to an industrial society very fast; in 1960 more than 70 per cent of people lived in rural areas but in 1990 three quarters of the population resided in urban areas (see Table 4.12). The rapid urbanisation was accompanied by rapid changes to household structures; i.e., the decrease of stem family households and the increase of single person and other non-traditional households (Han Park and Cho, 1995: 121). As seen from Table 4.12, for example, the ratio of stem family households (three or four generation households) fell down most significantly, from 28.5 per cent in 1960 to 12.5 per cent in 1990. Basically,

such a decrease in stem family households meant a decline in the co-residence of the elderly with their adult children. Nevertheless, In Korea, the importance of welfare provisions by the family or household has been larger than any other country. As many have indicated (Hong, 1999; Jung et al, 1998; Kwon, 2001; Son, 1998), in spite of the declining capability of the family revealed in demographics and household structures, the role of the family has been the most fundamental welfare source particularly when state welfare remained in a underdeveloped state.

Table 4.12. Transformation of Household Structure: 1960-2000

	(No, %)								
	1960	1966	1970	1975	1980	1985	1990	1995	2000
Ratio of Urban Residency	28.0		41.1		57.3		74.0		79.7
Average No. in Household	5.6	5.5	5.2	5.1	4.5	4.1	3.8	3.3	3.2
Nuclear Family Household (%)	63.5 ¹	64.7	68.1	67.7	68.3	68.8	68.0	68.6	68.3
Type of Household By Generation (%)									
One-person Household			4.8	4.2	4.8	6.9	9.0	12.7	15.5
One Generation	7.5	5.7	6.8	6.7	8.3	9.6	10.4	12.6	14.2
Two Generations	64.0	67.7	70.0	68.9	68.5	67.0	66.3	63.3	60.8
Three Generations or more	28.5	26.7	23.2	20.1	17.0	14.8	12.5	10.0	8.4
Other (Non-blood)					1.5	1.7	1.5	1.4	1.1

Note 1. 1955

Sources: 1960-1990: Han Park & Cho, 1995: Table 4 & 5.

1995 and 2000: National Statistical Office [<http://www.nso.go.kr/kosis>]

According to De Vos and Lee (1993), the co-residence rate of the elderly was 71 per cent in 1970²⁵, and still 64 per cent of the elderly lived with one of their adult children in 1980. Moreover, they conclude that, despite a significant decrease in the co-residence rate, young people still care for their parents when they need to be cared for. The relatively high co-residence rate helps explain that, while traditional norms had been the main motivation for co-residence in the past, co-residency has become more important in terms of substantial necessity such as child care among dual career households and saving on housing costs within large cities (De Vos & Lee, 1993: 388). Moreover, this kind of necessity has been met by the adaptation of new family behaviour such as 'adjacent separate living' (Chang, 1997: 28), and it has made it

²⁵ If we consider that the co-residence rate of the elderly would have decreased as industrialisation and urbanisation progressed, the figure (71 per cent in 1970) means it can be assumed that most elderly lived in extended family households until the 1960s.

possible that elderly parents and their (grand)children can look after each other without any damage to independent living. Therefore, despite significant and rapid changes in demographic and household structures, it does not seem that the importance of family as a source of informal welfare has been reduced fundamentally.

On the other hand, it must be mentioned that most of the elderly who do not live with one of their children have been dependent on the financial support of their children²⁶ (Jung et al., 1998). In relation to the underdeveloped and immature public pension schemes, the private income transfers from their children have been the most important income source for the elderly, especially when there is a specific need due to health problems, poverty or other special events (B.D. Son, 1998). The role of the family as the primary welfare source has not been restricted to its provisions for the elderly. The family has taken almost exclusive responsibility in caring for infants, pre-school children, the ill and the disabled. As mentioned above, the state hardly developed universal social services for ordinary people, but instead only intervened when the family failed in its service and caring provisions. In a sense, when considered alongside women's increasing economic participation, the rapid decrease in the total fertility rate (FTR) between 1960 and 1990 paradoxically reveals that most of the caring burden had been levied to the family. Instead of providing direct public benefits or services, the government indirectly has lightened the burden on the family through income tax credit schemes; and income tax deductions for dependent family members like children, the disabled and the elderly (Income Tax Law, Article 51 and 53).

To sum up, demographic changes and household structure transformations until the late 1980s have been weakening the basis of family welfare provision in Korea. However, the majority of elderly people have lived with their adult children or other relatives or been depended on private transfers from their descendants. Moreover, their caring responsibility had not been socialised, but has been left as the burden on the family (mostly mothers, and/or other relatives), except when the family was dissolved or unavailable. Substantially, under the condition of the underdeveloped state welfare system with a strong familism in the social service and public assistance system, the family has remained as the primary welfare source for the vast majority of people.

²⁶ Such a traditional norm that children have to support their parents has been absorbed even in public welfare programmes. Most notably, the public assistance programme has never forgiven the principle that the elderly with adult (grand)child(ren) who are able to support them cannot be entitled to receive public assistance benefits.

4.4. Summary and Conclusion

In this chapter, I briefly introduced trends in environmental factors and political institutions in Korea. Since 1987, Korea has experienced rapid changes in its political economy. The Korean economy has greatly integrated into the global economy. The financial Crisis of 1997 and the following economic recessions indicate how the Korean economy has been getting gradually more fragile to the volatility of international markets than ever before. At the same time, Korean society has been transforming towards a post-industrial society, especially in terms of the change in employment structure to service-based and more flexible employment, a declining fertility rate, increasing single households and other indicators regarding family dissolution. It can be ascertained that the intensification of these external forces and internal pressures together has increased the social needs and demands that should be dealt with by the social welfare provisions of state and non-state sectors. It can be expected, therefore, that the welfare mix structure among the five different sectors would have changed.

However, it is a very hazardous assumption that environmental factors would automatically cause a certain change in the welfare mix structure. As discussed below, political variables are critical in shaping national responses to the changing environments. In this respect, the democratic transition since 1987 has been of immense importance to welfare politics because political democratisation has provided the basic institutional conditions for the emergence of mobilised labour, an active civil society and social pact politics. At the same time, it can be assumed that the changes to the welfare mix would be restricted by the context of institutional legacies, i.e., previous welfare mix structures and related state's interventions in social welfare. The typical state interventions relating to the institutional legacies of the welfare mix have been (1) the income transfer system based on social insurance with minimised state financial support, (2) related to an avoidance of the state's financial responsibility, the encouragement and utilisation of non-state sectors in social welfare provision through such interventions as the legislation for mandatory enterprise welfare, tax benefits for market and enterprise welfare provision, and the utilisation of the third sector in social service provision, (3) as the primary welfare provider, the emphasis has been on the responsibility of the family.

Until 1987, the social welfare institutions of Korea had been thoroughly subordinate to the political and economic logic of the authoritarian regimes. Since the social welfare system should not hinder the supreme goal – i.e., economic development, the coverage of the state welfare programmes was very restricted, and their benefit levels were minimal. Whereas some occupational schemes covering the core, privileged personnel such as civil servants, military personnel and teachers have provided a substantial level of benefit, the state not only attempted to minimise its financial burden in the expansion of existing social insurance schemes but also was very reluctant to introduce new schemes. Instead, the state positively utilised non-state sectors in social welfare provision. Most notably, the NPOs were entrusted to take the state's responsibility in social services and therefore the state could control them via various regulatory and financial means. Enterprise welfare programmes were introduced and developed utilising methods of various state interventions. The mandatory severance pay was a substantial substitute for pension and unemployment benefits, and other voluntary programmes also offered supplements for low wages and social incomes. But the social services provided by NPOs were targeted to needy groups without family members, and enterprise welfare benefits were limited only to the workers in relatively large workplaces. Under this situation, the vast majority of people had to depend on either their family or their own payment ability in the market. The insurance industry, and the financial market in general, grew rapidly in the 1970s and 1980s. In spite of the processes of rapid urbanisation and industrialisation, the family remained the most important welfare source. Adult children lived with their elderly parents or supported them through private income transfers if they did not live together. Most pre-school children were cared for within the confines of their family. To sum up, the institutional legacies of the welfare mix structure until 1987 can be summarised by, 'a residual level of state welfare with a minimised financial burden; a growing market sector; an entrusted and subordinated third sector in social service provisions; for workers, enterprise welfare as *de facto* substitute for residual state welfare; and pervasive family provision as the primary welfare source for the vast majority of people'.

CHAPTER 5. TRACKING WELFARE MIX EXPENDITURES: 1990~2001

Were there welfare mix changes in Korea between 1987 and 2002? If so, how has the welfare mix structure changed and which sector(s) had become more important than others? These are the main questions that this chapter attempts to answer. To examine welfare mix changes during the research period, this chapter firstly analyses welfare mix expenditure because the expenditure analysis has been regarded as one of the most important ways of measuring the welfare effort of a society. In this chapter, I propose new empirical research methods for an estimation of the welfare mix expenditure of Korea, and present the results of the estimations. Even though the expenditure study of the research covers only the period between 1990 and 2001 due to data restriction, we can expect that the various aspects of the welfare mix changes could be revealed through inter-sectoral comparisons as well as decomposed sector-by-sector analyses when we follow up the expenditure trends.

This chapter consists of five sections. The first section introduces the research methods for tracking welfare mix expenditure between 1990 and 2001. Here, I operationalise the components of welfare mix expenditure, and present detailed estimation methods and data sources. In the second section, I attempt to decompose welfare mix expenditure into sector-by-sector trends, to investigate why the expenditure trends of each sector have changed. Then, the third section examines the basic trends in gross welfare mix expenditure, the sum of expenditure in all the five sectors. In the fourth section, through inter-sectoral comparison, the main analytical focus turns to structural changes within welfare mix expenditure during the research period. In the final section, I shall summarise the major findings of the expenditure study.

5.1. Research Methods for the Expenditure Study

As discussed above, despite the recent research of the OECD, it is very hard to find an empirical study where the analysis of social welfare expenditure is expanded to a genuine welfare mix approach, which encompasses all five sectors – the state, market, enterprise, third and family sector. In this section, I attempt to operationalise the welfare expenditure of all five sectors of the welfare mix, and introduce the estimation methods for tracking welfare mix expenditure trend during the research periods. The scope of the welfare mix expenditure in the research is restricted to the social protection and health areas, as found in most of the comparative expenditure research of major IGOs. Now, let me explain the detailed estimation methods of the five sectors respectively. A summary of the contents and data sources is presented in Table 5.1.

The State (Public) sector

There is some variance in the definition of and estimation of public social expenditures, according to the different standards of different IGOs like the OECD (Adema, 1996, 1999, 2001), ILO (1996) and EUROSTAT (2000). In the estimation of the welfare expenditures of the state (public) sector, I mainly follow the OECD standards, but there are some differences. In the research, the welfare expenditures of the state sector is made up by those expenditures on cash and in-kind benefits and social services provided by social insurance institutions, the central government and local authorities. However, the OECD's category of public social expenditures includes not only the elements stated above, but also mandatory private expenditures. Mandatory private expenditures like mandatory severance pay, maternity pay, and sickness benefits paid by employers clearly have a social purpose and legally set by the state. However, there are some critical problems which apply to those OECD's guidelines in the research. Most of all, the research defines five sectors of the welfare mix and one of them is enterprise welfare. Despite their legal and institutional features, their finance and provision are exclusively in the hands of employers. In the research mandatory enterprise welfare benefits should be included within enterprise welfare. Nonetheless, the data on the

state's expenditure can be obtained directly from the series of Kho et al. (2002, 2003), which followed the OECD guidelines, and have separated expenditure data between state benefits and the mandatory private benefits within their work.

The Market Sector

The forms of households' market purchases of welfare goods can be classified within two main domains; one is direct payments for health and other social services, and the other is contracted insurance payments (indirect payments via insurance companies). Household payouts for health services make up an absolute part of the former fee-for-service type expenditures. Since the National Health Insurance system has continued to play a significant part in making co-payments for the insured health services and there has also been many services and treatments not covered by the NHI system, households took the largest part of the burden for health costs in the overall national health expenditure until 1997 (Chang et al, 2003: 95). The data on households' direct payments for health services is directly available from Chang et al. (2003), which follows the OECD's guidelines for the estimation of national health expenditure. In the case of data on households' direct payments for social services, the data is excluded from estimations because there has been no available dataset so far. What must be indicated here, however, is that Korea's social service market is just emerging and the scale of expenditures can be considered to be of little importance when compared with health service expenditures.

Private insurance contracts can be divided into two functional types; the first is private insurers' pay-outs to the health services and the other is life-insurance pay-outs to the insured or survivors in case of the death, accident and illness. Both life and non-life insurance contracts can provide for the claims for health services. The data on them is available from Chang et al. (2003) and the 'Insurance Statistical Yearbook' published by the Korea Insurance Development Institute (KIDI). As Adema (2001: 33) indicated, the life insurance pay-outs to survivors in the case of the death of the insured person evidently have a 'social' nature or social protection function. The KIDI's data provides separate expenditure information on the claims for the death, accidents, illness as well as on pay-outs for contract cancellation and expiry which should be regarded as a form

of savings rather than having a social protection function.

Enterprise Welfare

Korea is one of the most developed countries in the world in terms of enterprise welfare. Enterprises have provided for a significant part of the welfare benefits for their workers and most of them, more importantly, have been set up by the government in order to reduce its financial burden on social protection. This part of enterprise welfare can be called mandatory enterprise welfare, which is based on the state's legal statutes. The most important element among mandatory enterprise welfare benefits is mandatory severance (or retirement) pay, whilst employers also pay for part of the wages when workers apply for mandatory maternity leave and mandatory sickness leave. Data on these mandatory benefit expenditures is directly available from Kho et al. (2003). Although they included mandatory enterprise welfare benefits within public sector expenditure in order to follow the OECD guideline, I separate them from the welfare expenditures of the state sector.

On the other hand, voluntary enterprise welfare benefits have also made up a critical part of entire enterprise welfare expenditures, especially when the labour market conditions remained stable before the Crisis of 1997. However, there is no direct expenditure data available regarding voluntary enterprise welfare expenditures, so I can only depend on an indirect estimation method by using a set of micro-survey reports. The data used here to estimate the voluntary enterprise welfare benefits are the 'Survey on Enterprises' Labour Costs and the 'Survey on Establishment Labour Condition' – both conducted by the Ministry of Labour (MOL). The former survey contains information on all the elements of labour costs using a scale for enterprises (from size 1 to 6¹) and the latter also provides the number of workers by the scale of the enterprise. For each category on the scale of enterprise, the estimated expenditures can be obtained through multiplying the per capita costs on voluntary enterprise welfare by the number of workers, and the total expenditure can be calculated by the sum of each category. Here we need the additional presupposition that the per capita costs of enterprises with

¹ The Survey on Enterprise Labour Costs divides the size of enterprises into 6 categories by the number of workers as follows; size 1 for enterprises with 10-29 regular workers, size 2 (30-99), size 3 (100-299), size 4 (300-499), size 5 (500-999) and size 6 (1000 or more)

less than 10 workers would be same as those of enterprises with 10-29 workers (size 1) because the survey omits very small enterprises with less than 10 regular workers².

The Third Sector

In the same way that it is difficult to set up the range and definition of the third sector itself, reliable and comprehensive data sources covering the welfare expenditures of third sector organisations are hard to find. There are numerous voluntary groups and organisations that provide social services and other welfare benefits, but it is almost impossible to find the sum of those expenditures within the works of single researchers or research organisations. This is especially true when the research tries to estimate those expenditures made by religious groups. There are so many individual churches, temples and other religious organisations that are dependent on rather informal and individual activities that cannot be organised by central or federal monitoring agencies. In acknowledging this limitation, the best possible alternative is to estimate the third sector's welfare expenditures but restrict the scope of the third sector organisations to only the NPOs according to national tax legislation like in the US case (Rose-Ackerman, 1986; James, 1990; Salamon, 1995). Only once the definition of third sector organisations is limited to formal non-profit corporations (organisations) subject to the tax benefits of central and/or local governments, vis-à-vis for-profit corporations subject to corporation tax, then NPO's expenditure information is directly available from one source of Korea's official data - Korea's National Accounts of the Bank of Korea (BOK). The BOK provides tens of sub-accounts and one of them is the 'Final Consumption Expenditure of Nonprofit Institutions Serving Households'. There are several NPO categories (like sports, education and research, health, social welfare and so on) in the sub-account and we can obtain the welfare expenditures of the third sector by collecting the expenditure data of the social welfare and health categories only.

² It was since 1998 that the survey began to cover enterprises of size 1. So until 1997 the presupposition should be expanded to size 1 enterprises; that is, the voluntary welfare expenditure of those enterprises with less than 30 workers is as much as those of size 2 enterprises. Of course, these presuppositions would cause over-estimations, if not underestimation, but I made an inference that the estimation method applied here would produce better results than those excluding small enterprises' expenditures.

Family and Households

It is very difficult and, in a sense, sceptical to present the role of family as a type of expenditure – it is very hard not only to get hold of informal and private income transfers but also to transform those services and caring into monetary expenditure figures. Here I shall only consider private income transfers as the welfare expenditures of the family because it seems more suitable that intra-family services and caring are to be dealt with within the dimensions of institutional features themselves rather than to dangerously transform them into an expenditure type without a generally accepted estimation measure or available data covering the entire research period. Nonetheless, it should be noted that omitting services and caring from the expenditures of the family inevitably underestimates its overall importance in the welfare mix.

Even the estimation of inter-household private transfers is not an easy job. First of all, the nation-wide private transfer income in the year of 2000 can be calculated by using the ‘National Survey of Household Income and Expenditure’, which has been conducted by the National Statistical Office (NSO) every 5-years since 1991³. Until the second survey, however, the national survey covers only the income information for workers’ households. For other years, therefore, I have to depend on indirect estimation measures again with some critical presuppositions to calculate the sum of private income transfers using the currently available data in Korea. For obtaining private household income transfers year by year, the ‘Annual Report on Urban Households’ (urban workers’ households), the ‘Farm Household Economy Report’ (farmers’ households) and the ‘Fishery Household Economy Report’ (fishermen’s households) are used. All of them are yearly reports conducted by the NSO. Since the ‘Annual Report on Urban Households’ does not include income information on urban self-employed households, I also presuppose that the private transfer income among urban self-employed households is same as that of urban workers’ households. With these data, I have calculated the per capita private transfer income of each category (urban, farming and fishery) and then multiply that by the number in each population. Finally, to correct the estimated result, I compared the estimated sum of private transfer income of 2000 with the figure initially calculated by the ‘National Survey of Household Income and Expenditure’ in 2000. At the next stage, I could obtain the ratio between those two

³ The third survey schedule in 2001 was actually conducted in 2000.

estimations and then multiply all the other years' estimations by that ratio⁴. Such measures seem more valid for the estimations around 2000, but more error can inevitably be expected as the estimations go back to the years closer to 1990. This should be mentioned as a limitation to the estimation measures but, nevertheless, seems the best way under the given conditions of data restriction.

Table 5.1. Summary of Contents and Data Sources of the Welfare Mix Expenditures

Sectors	Contents	Sources
State	<ul style="list-style-type: none"> Public social expenditures on social protection and health, from central and local governments and social insurance funds 	<ul style="list-style-type: none"> Kho et al. (2002, 2003). OECD's public social expenditure excluding mandatory enterprise welfare.
Market	<ul style="list-style-type: none"> Households' expenditure on health including co-payments 	<ul style="list-style-type: none"> Directly both available from Chang et al. (2003), following OECD's National Health Expenditure guidelines.
	<ul style="list-style-type: none"> Private health insurance pay-outs 	
	<ul style="list-style-type: none"> Private life insurance pay-outs due to the death and accidents of the insured 	<ul style="list-style-type: none"> Korea Insurance Development Institute, Insurance Statistical Yearbook, various years.
Enterprise	<ul style="list-style-type: none"> Mandatory severance benefits 	<ul style="list-style-type: none"> Kho et al. (2001)
	<ul style="list-style-type: none"> Mandatory maternity leaves 	
	<ul style="list-style-type: none"> Mandatory sickness benefits 	
	<ul style="list-style-type: none"> Voluntary enterprise welfare benefits 	<ul style="list-style-type: none"> Indirect estimation from Ministry of Labour, Survey on Enterprises' Labour Costs and Survey on Establishment Labour Conditions, various years.
Third Sector	<ul style="list-style-type: none"> NPO's expenditures on social welfare and health 	<ul style="list-style-type: none"> Bank of Korea, National Accounts, Final Consumption Expenditure of Non profit Institutions serving Households, various years
Family	<ul style="list-style-type: none"> Inter-household (intra-family) private income transfers 	<ul style="list-style-type: none"> Indirect estimation from, National Statistical Office (2000), National Survey of Household Income and Expenditure, 2000; NSO, Annual Report on Urban Household, Farm Household Economy Report, Fishery Household Economy Report, various years

⁴ All the estimation procedures stated so far can be summarised as the following mathematical expression,

$$S(PIT) = \Sigma(PIT_u \cdot N_{up}, PIT_{fa} \cdot N_{fap}, PIT_{fi} \cdot N_{fip}) \cdot R_{2000}$$
(S(PIT)=Sum of Private Transfer Income; PIT_u =Per capita Private Transfer Income of Urban households; N_{up} =Number of Urban Population; PIT_{fa} =Per capita Private Transfer Income of Farming households; N_{fap} =Number of Urban Population; PIT_{fi} =Per capita Private Transfer Income of Fishery households; N_{fip} =Number of Urban Population; R_{2000} =Ratio between the estimation using three datasets and the estimation using the national survey data)

Welfare Pentagon Model in the Expenditure Study

It is possible for us to adapt the welfare pentagon model to an empirical expenditure study. In this case, as illustrated by Figure 5.1, a more useful framework for inter-sectoral comparisons can be developed, which is composed by five lines. The level of welfare expenditure as a proportion of GDP appears along each line. When the points indicating the spending level of each sector are connected, a pentagon shape can be made. For typical examples, let me deal with the four cases drawn in Figure 5.1. Whereas country A reveals a ideal type of a genuine welfare mix structure, B presents a state-dominated welfare mix, C shows a market-enterprise dominated structure and D indicates a state-family dominated model. If the four cases appeared in a country in a chronological order from A to D, the model would indicate a change in the structure of the welfare mix. With this welfare pentagon model, it is possible for us to compare the relative importance of each sector as well as allowing us to indicate the mixed state of welfare in neutral terms. Moreover, it enables us to count the overall level of welfare effort and to compare one society with another. It can also be an important methodological tool when analysing the dynamics of welfare mix structures, which makes it possible to follow changes in welfare mix structure over time.

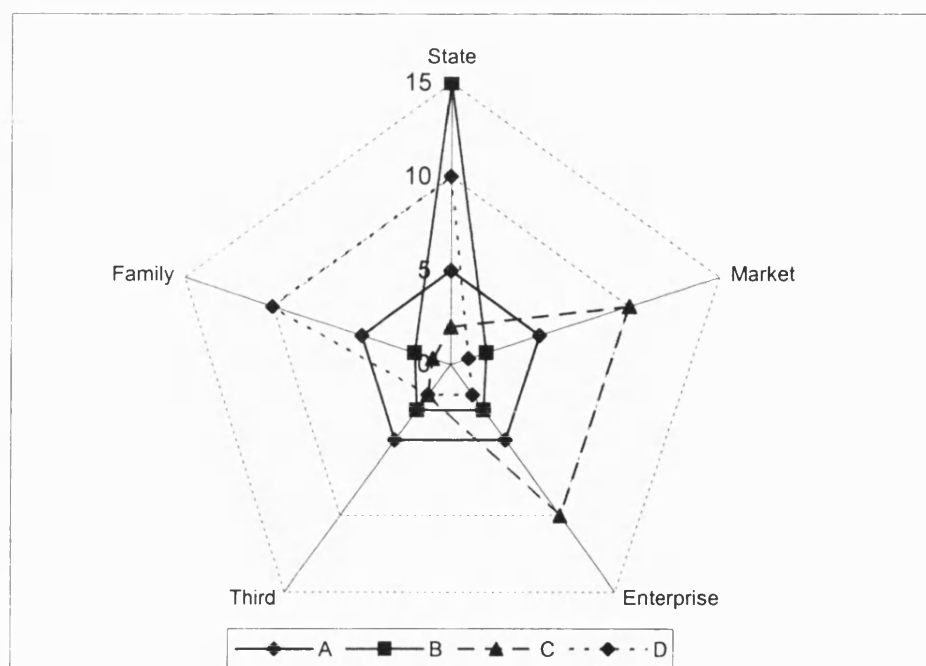


Figure 5.1 Welfare Pentagon Model for an Expenditure Study

5.2. Welfare Mix Expenditures: Sector-by-Sector Trends

The most outstanding feature of the overall welfare mix expenditure between 1990 and 2001 was the increase in state welfare expenditure (see Table 5.2). In 1990 the state expenditure on social protection and health remained just 3.2 per cent of GDP but it had almost doubled by 2001. What is more interesting in the trends of state expenditure is its rapid increase between 1997 and 1999, when the Korean economy faced a drastic financial crisis and the following recession. Whereas the increase in the state expenditure had maintained a stable trend until 1997, its share of GDP rose up by 2.6 per cent between 1997 and 1999. This was largely due to the rapid increase in social protection expenditure. During the same period, the social protection expenditure of the state rose to 4.5 per cent of GDP, from 2.2 per cent in 1997. The mass unemployment accompanying the economic recession in 1998 and 1999 gave rise to a rapid increase in unemployment benefits expenditure, lump-sum payments of public pension schemes and other government expenditures on unemployment policies. As the Korean economy recovered and the unemployment rate fell, the social protection expenditure of the state began to decrease from 2000 but, instead, health expenditure increased much more. While the social protection expenditure stuck at a 3 per cent level of GDP, owing to the health reforms of 1999, the state's health expenditure increased by one third, from 2.4 to 3.2 per cent of GDP, between 1999 and 2001.

However, the relatively rapid increase in state expenditure has not occurred alongside a significant change in its institutional structure. The expenditure structure is dominated by social insurance and has hardly changed; rather, it had been reinforced slightly until the public assistance reforms of 1999 widened its official coverage to the able-bodied. Really, the share of public assistance expenditure had decreased continuously between 1990 and 1998. On the other hand, showing a stable trend, the social service expenditure of the state held a relatively high share throughout the research period. But, we must remember that the greatest share of the social service expenditure was taken up by health and employment services, rather than personal social services. More detailed discussion of these issues shall be forwarded to the following chapter.

Table 5.2. Trends of the State Welfare Expenditure

(Billion Won, per cent of GDP, per cent of Total State Welfare Expenditure)

	Total Expenditure		By Function (% of GDP)		By Institutional Type (% of Total Expenditure)		
	Amount (Bn won)	% of GDP	Social Protection	Health	Public Assistance	Social Services ¹	Social Insurance
1990	5,651	3.2	1.4	1.7	15.2	19.5	65.2
1991	6,415	3.0	1.5	1.5	16.1	17.0	66.9
1992	7,979	3.2	1.7	1.6	14.1	20.7	65.2
1993	9,248	3.3	1.7	1.6	13.6	19.6	66.7
1994	10,943	3.4	1.8	1.6	12.1	20.7	67.2
1995	13,846	3.7	2.0	1.7	11.0	21.2	67.8
1996	16,331	3.9	2.0	1.9	10.9	21.9	67.2
1997	19,388	4.3	2.2	2.1	10.7	22.9	66.4
1998	26,513	6.0	3.6	2.4	9.5	21.9	68.7
1999	33,372	6.9	4.5	2.4	10.0	21.2	68.7
2000	29,287	5.6	3.0	2.6	13.0	22.7	64.3
2001	33,774	6.1	2.9	3.2	15.6	19.8	64.6

1. Expenditure on institutional services, community care, personal social services, employment services and other services related to ALMPs, and the health services (health expenditure of the central and local governments).

Source: Kho et al., 2003.

Table 5.3. Expenditure Trend of the Market Sector

(Billion Won, per cent of Total, per cent of Health Expenditure, per cent of GDP)

	Social Protection ¹		Health ²			Total	
	Amount	% Total	Amount	% Total	S.H.E ³	Amount	% GDP
1990	185	3.6	4,938	96.4	91.7	5,123	2.9
1991	232	3.7	5,993	96.3	91.4	6,225	2.9
1992	297	4.0	7,055	96.0	91.6	7,352	3.0
1993	388	4.6	7,990	95.4	90.4	8,378	3.0
1994	531	5.7	8,866	94.3	89.9	9,397	2.9
1995	681	6.4	10,023	93.6	89.8	10,704	2.8
1996	847	6.9	11,466	93.1	88.7	12,313	2.9
1997	992	7.6	12,003	92.4	87.4	12,995	2.9
1998	1,074	8.8	11,097	91.2	84.7	12,171	2.7
1999	1,252	8.7	13,204	91.3	84.3	14,456	3.0
2000	1,397	8.7	14,629	91.3	81.8	16,026	3.1
2001	1,402	8.3	15,410	91.7	80.8	16,812	3.0

1. Private life insurance pay-outs to the death and accident of the insured

2. Households' expenditure on health including co-payments and private health insurance pay-outs

3. The share of households expenditure in total health expenditure of the market sector, per cent

Source: own calculation from Chang et al (2003); Korea Insurance Development Institute, *Insurance Statistical Yearbook*, various years

Contrary to the dynamics of state welfare, the overall expenditure of the market sector seems static over the research period – at approximately a 3 per cent level of GDP. However, if we dissect it again into social protection and health sections respectively, some meaningful findings can be extracted. Most of all, as seen from Table 5.3, the share of social protection expenditure, i.e., the private life insurance pay-outs to the death and accident of the insured, increased continuously, even though its share never exceeded 10 per cent of the total expenditure of the market sector. Along with the growing importance of private life insurance, private health insurance markets expanded gradually. In the research, the health expenditure of the market sector can be divided into two components; one being the household expenditure on health (including co-payments under the Medical Insurance, or the National Health Insurance after 1999, system), and the other is private health insurance pay-outs to individuals and households. In 1990, the share of household expenditure had been 91.7 per cent but it decreased to 80.8 per cent by 2001. As a conclusion, despite the static expenditure trend of the market sector, the direct expenditure of households purchasing health goods and services declined, but instead private insurance markets grew significantly for both social protection and health.

Following on from the state sector, another dynamic trend can be found in enterprise welfare expenditure. The gross sum of enterprise welfare expenditure including both voluntary and mandatory benefits rose up by more than 50 per cent between 1990 and 2001, from 3.0 per cent to 4.6 per cent of GDP (see Table 5.4). As it has been known that, following the ‘Great Struggle of the Labour’ between 1987 and 1989, enterprise welfare has expanded much since the early 1990s (Song, 1994, 1995; Park, 1996; Hong, 1999), there was a dramatic increase in the voluntary enterprise welfare expenditure between 1990 and 1992 – the nominal expenditure more than doubled for two years. The share of voluntary enterprise welfare expenditure reached a peak in 1992, and then turned into a downward trend afterwards. Similar to the trend of state expenditure, gross enterprise welfare expenditure rose steeply by 1.3 per cent of GDP for a year between 1997 and 1998, from 4.4 per cent to 6.7 per cent of GDP. Such a rapid increase in the gross enterprise welfare expenditure was directly due to mass unemployment in 1998 because employers had to pay lump-sum mandatory severance payments or retirement benefits to the employees who lost or retired from their jobs.

Table 5.4. Expenditure Trend of the Enterprise Welfare

(Billion won, per cent of Total, per cent of GDP)

	Voluntary				Mandatory ¹		Total	
	Social Protection		Health		(Social Protection)			
	Amount	%.total	Amount	%.total	Amount	%.total	Amount	%.GDP
1990	2,937	55.3	435	8.2	1,940	36.5	5,312	3.0
1991	4,572	62.7	429	5.9	2,287	31.4	7,288	3.4
1992	6,696	70.0	619	6.5	2,256	23.6	9,570	3.9
1993	6,609	62.9	711	6.8	3,192	30.4	10,512	3.8
1994	7,502	58.5	1,117	8.7	4,205	32.8	12,823	4.0
1995	7,626	55.0	1,080	7.8	5,157	37.2	13,864	3.7
1996	9,209	57.4	1,105	6.9	5,742	35.8	16,057	3.8
1997	9,031	44.9	1,303	6.5	9,786	48.6	20,119	4.4
1998	7,089	23.8	1,083	3.6	21,622	72.6	29,794	6.7
1999	8,191	35.1	1,521	6.5	13,636	58.4	23,347	4.8
2000	9,154	31.7	1,612	5.6	18,089	62.7	28,855	5.5
2001	9,888	38.6	1,843	7.2	13,873	54.2	25,605	4.6

1. Expenditure on mandatory severance pay, mandatory paid maternity leave and mandatory sickness benefits.

Source: own calculation from Kho et al (2002, 2003); Ministry of Labour, *Survey on Enterprises' Labour Costs* and *Survey on Establishment Labour Conditions*, various years.

Between 1996 and 1998, whereas voluntary enterprise welfare expenditure decreased significantly due to the economic recession, the mandatory enterprise welfare expenditure multiplied almost fourfold. These trends began to reverse from 1999 and voluntary enterprise welfare expenditure recovered until 2000. So it can be acknowledged that voluntary enterprise welfare is very sensitive to economic conditions and, by dividing enterprise welfare expenditure into voluntary and mandatory types, there is a trade-off relationship between them. But, as an exception, mandatory enterprise welfare expenditure rose up temporarily during 2000, because an adjustment to the mandatory severance pay was introduced and many employees claimed in advance lump sum mandatory severance payments that had been accumulated so far. To sum up, in spite of some fluctuations since the financial crisis, generally speaking, enterprise welfare has expanded greatly in terms of expenditure. And, more importantly, due to the state's previous interventions setting up the mandatory severance pay scheme through labour legislation (the Labour Standard Law), the enterprise sector had to pay a significant part of the cost of mass unemployment during the Crisis.

Table 5.5. Expenditure Trend of the Third Sector

(Billion Won, per cent of Total, per cent of GDP)

	Social Protection		Health		Total	
	Amount	% of Total	Amount	% of Total	Amount	% of GDP
1990	99	71.0	41	29.0	140	0.1
1991	116	69.0	52	31.0	169	0.1
1992	138	70.7	57	29.3	196	0.1
1993	161	72.3	62	27.7	222	0.1
1994	197	72.6	74	27.4	271	0.1
1995	232	72.5	88	27.5	320	0.1
1996	262	73.0	97	27.0	359	0.1
1997	291	72.6	110	27.4	402	0.1
1998	325	73.7	116	26.3	441	0.1
1999	346	74.3	120	25.7	465	0.1
2000	371	75.1	123	24.9	494	0.1
2001	417	75.4	136	24.6	553	0.1

Source: Bank of Korea, *National Accounts*, various years.**Table 5.6. Average Transfer Income of Urban Workers' Households and the Estimated Gross Private Transfer**

(Thousand Won, per cent of Ordinary Income, Billion Won, per cent of GDP)

	Urban Household				Estimated Gross of	
	Public Transfer		Private Transfer		Private Transfer	
	Amount	% of inc	Amount	% of inc	Amount	% of GDP
1990	4	0.4	24	2.7	6,536	3.7
1991	5	0.5	32	2.9	8,474	3.9
1992	6	0.5	35	2.7	9,201	3.7
1993	6	0.4	33	2.4	9,299	3.4
1994	7	0.4	40	2.5	11,374	3.5
1995	7	0.4	43	2.4	12,387	3.3
1996	10	0.5	45	2.2	13,036	3.1
1997	13	0.6	56	2.6	15,905	3.5
1998	9	0.5	49	2.4	13,650	3.1
1999	11	0.5	57	2.8	16,206	3.4
2000	14	0.6	52	2.4	15,089	2.9
2001	23	0.9	52	2.1	15,090	2.7

Sources: own calculation from National Statistics Office (NSO), *Annual Report on Urban Households*, various years; NSO, *Farm Household Economy Report*, various years; NSO, *Fishery Household Economy Report*, various years; and NSO, *National Survey of Household Income and Expenditure 2000*.

Lastly, Table 5.5 and 5.6 represent the expenditure trends of the third sector and family respectively. The expenditure of the third sector in both social protection and health remained minuscule throughout the research period, and its gross expenditure never exceeded 0.1 per cent of GDP. On the contrary, the private income transfers of the family have remained a very important income source. As indicated from Table 5.6, the share of private income transfers was maintained at 2~3 per cent of the ordinary income of urban households, but public income transfers never exceeded 1 per cent throughout the research period. It can be implied that private transfers are a more important welfare source than the public ones for the majority of the general population. Moreover, until the early 1990s, the estimated gross total of private income transfers had been larger than the totals of the state and market sectors. Nonetheless, it must be noted that the relative scale of private income transfers decreased gradually (from 3.7 to 2.7 per cent of GDP) over the research period.

5.3. Trends of the Gross Welfare Mix Expenditure

Before presenting the gross sum of welfare mix expenditure, it is worthwhile to remind ourselves of the recent OECD research on social expenditure. Although state expenditure on welfare has been regarded as a typical indicator measuring the welfare efforts of a nation in comparative social policy studies, the welfare expenditure of non-state sectors has not been included in most cases. However, the OECD has developed its guidelines to produce net social expenditures that are internationally comparable, including the expenditure on some private social benefits. According to the recent research (Adema, 2001), private social expenditure, both mandatory and voluntary, is very important in the makeup of the gross total social expenditure in some countries.

As seen from Table 5.7, for example, whereas the public social expenditure (the state welfare in the research) of such advanced welfare states as Germany and Sweden were more than 25 per cent of GDP, the level of US expenditure remained 14.7 per cent in 1997. If private expenditures were included, however, the gross sum of the total

social expenditure in the US rose up to 22.9 per cent of GDP. In the case of Korea where a genuinely mixed state of welfare can be highlighted as the main feature of its welfare model, the low expenditures of the state and the importance of non-state sectors should be more prominent. Even though all mandatory private and most voluntary private social expenditure in the Table 5.7 was held within the enterprise sector, the private share made up almost half of the gross total social expenditure. If we consider the market, third and family sectors together, it can be expected that the dependency on the private sector within welfare expenditure would be much higher. Presumably, one may argue that a more mixed state of social welfare in Korea could have offset for, if not substituted for, the state's marginal role in the expenditure figures.

Table 5.7. International Comparison for Gross Total Social Expenditure, 1997: OECD standards

	(per cent of GDP)					
	Germany	Sweden	UK	US	Japan	Korea
a. Gross public social expenditure	26.4	31.8	21.2	14.7	14.0	4.3
Pensions (old age and survivors)	10.9	8.4	7.0	6.0	6.4	1.3
Disability spending	1.4	2.5	2.6	0.9	0.5	0.4
Sickness benefit	0.3	0.9	0.2	0.2	0.1	0.0
Unemployment	1.5	2.1	0.6	0.3	0.5	0.0
Public expenditure on health	8.2	6.8	5.6	5.9	5.6	2.1
Other ¹	4.1	11.0	5.2	1.4	1.0	0.5
b. Gross mandatory private S.E.	1.2	0.4	0.4	0.4	0.5	2.4
c. Gross voluntary private S.E.	1.0	2.6	3.4	7.8	0.4	1.8
Pensions	0.9	2.1	3.1	3.6	0.4	0.0
Health	0.1	0.1	0.2	4.2	..	0.3
Other	0.0	0.4	0.0	0.0	0.0	1.5
d. Gross total S.E. (a+b+c)	28.6	34.8	24.9	22.9	14.9	8.4
e. Public share in gross total S.E. (a/b, %)	92.3%	91.4%	85.0%	64.3%	94.0%	50.7%

1. including services for the elderly and the disabled; family cash benefits; family services, active labour market policies (ALMP); and other contingencies (e.g., cash benefits to those on low income)

Source: Adema, OECD, 2001: 13.

Now, I present my own estimates of the aggregated welfare mix expenditures. When we include those expenditures of non-state sectors, the level of gross social

welfare expenditure has been at least a few times larger than that of the state. As Table 5.8 and Figure 5.2 indicate, in 1990 the expenditure of the state was just over 3 per cent of GDP (also see Table 5.2) but the gross total social welfare expenditure including all five sectors was 12.7 per cent of GDP. Indeed, the role of non-state sectors was far greater than that of the state sector, in terms of expenditure. Between 1990 and 2001, the gross level of welfare expenditure covering all five sectors increased more than four times when measured using the Korean local currency (from 22.7 to 91.8 Trillion Won), but its proportion increased by only 4 per cent of GDP. Even when we divide the gross expenditure into social protection and health expenditures respectively, such a basic trend – a gentle increase in expenditure as a percentage of GDP – does not seem to change; a 2.3 per cent increase in social protection and a 1.6 per cent in health expenditures. The incremental increase trend between 1990 and 2001 does not seem to indicate a dramatic change in welfare mix expenditures.

Table 5.8. The Gross Expenditures on Social Protection and Health

	Total		Social Protection			Health		
	Amount	%.GDP	Amount	%.GDP	%.total	Amount	%.GDP	%.total
1990	22,762	12.7	14,221	8.0	62.5	8,541	4.8	37.5
1991	28,571	13.2	18,862	8.7	66.0	9,708	4.5	34.0
1992	34,298	14.0	22,660	9.2	66.1	11,637	4.7	33.9
1993	37,659	13.6	24,500	8.8	65.1	13,160	4.7	34.9
1994	44,808	13.9	29,690	9.2	66.3	15,118	4.7	33.7
1995	51,121	13.5	33,501	8.9	65.5	17,619	4.7	34.5
1996	58,096	13.9	37,383	8.9	64.3	20,712	4.9	35.7
1997	68,809	15.2	46,061	10.2	66.9	22,747	5.0	33.1
1998	82,569	18.6	59,707	13.4	72.3	22,862	5.1	27.7
1999	87,846	18.2	61,379	12.7	69.9	26,469	5.5	30.1
2000	89,751	17.2	59,771	11.5	66.6	29,980	5.7	33.4
2001	91,834	16.6	56,570	10.3	61.6	35,263	6.4	38.4

Sources: own calculation from Chang et al (2003); Kho et al (2002, 2003); Korea Insurance Development Institute, *Insurance Statistical Yearbook*, various years; Ministry of Labour, *Survey on Enterprises' Labour Costs* and *Survey on Establishment Labour Conditions*, various years; Bank of Korea, *National Accounts*, various years; National Statistics Office (NSO), *Annual Report on Urban Households*, various years; NSO, *Farm Household Economy Report*, various years; NSO, *Fishery Household Economy Report*, various years; and NSO, *National Survey of Household Income and Expenditure 2000*.

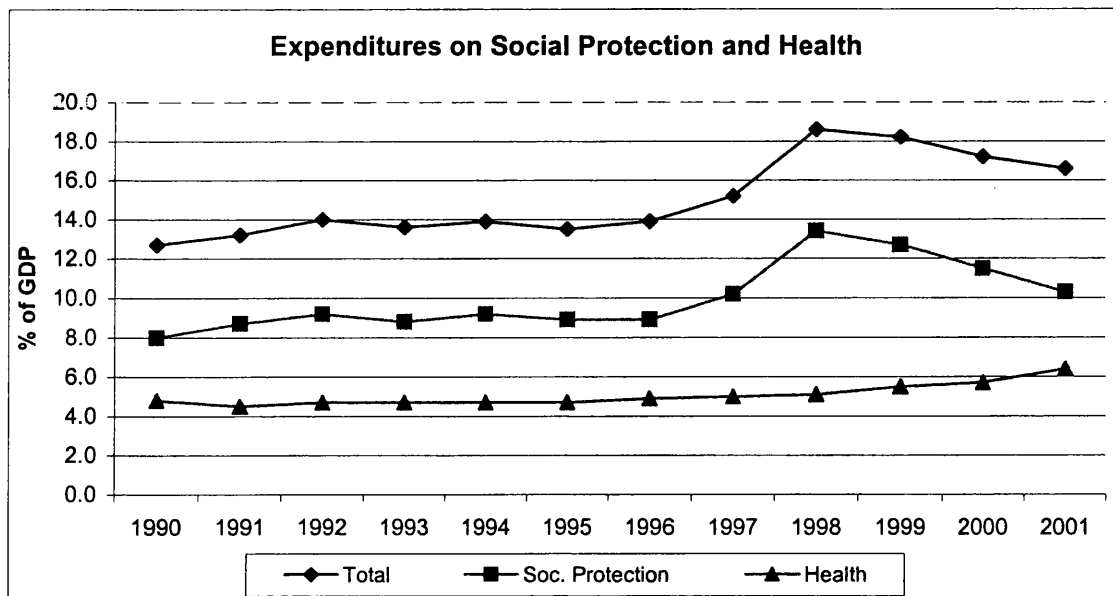


Figure 5.2. The Gross Expenditures on Social Protection and Health as % of GDP

Sources: see Table 5.8.

However, at the same time, we can extract two important implications for further analysis. The first is that the stable trend between 1990 and 2001 can be used as a baseline when explaining the extraordinary fluctuations in some years. As a matter of fact, the most outstanding feature revealed in Figure 5.2 is a rapid increase in the gross expenditures during 1998. Between 1992 and 1996, the expenditures remained quite static, approximately 14 per cent of GDP. But the expenditures suddenly rose up to 18.6 per cent in 1998. Again the expenditures increases reverted into a steady decrease afterward. It can be said that, although further analysis of expenditure trends after 2001 is required, the extraordinary expenditures during the end of the 1990s began to return to the stable baseline from the early 2000s. The rapid increase of 1998 was due to a similar increase in social protection expenditures and, therefore, can be interpreted as the cost of the sudden devastating social problems caused by the financial crisis. However, the health expenditure presents a quite stable trend over the period, despite an incrementally increasing trend from 1998. The other point of note is that, due to the gentle trends in the gross welfare expenditures, the changes of importance between sectors are revealed clearly and more evident. In other words, if one or a few sectors'

importance increased and other sectors remained basically stable or decreased, then such changes can be interpreted as structural changes in the welfare mix. Based on inter-sectoral comparisons, more detailed discussions shall follow below. From now on, let us turn our analytical focus to the structural changes of the welfare mix expenditure.

5.4. The Changes in the Expenditure Structure: Inter-Sectoral Comparisons

The overall landscape of the expenditure structure of the welfare mix can be grasped using inter-sectoral comparisons incorporating all five sectors. In spite of the overarching stable trend in welfare mix expenditure shown in Figure 5.2, a rapid increase in the overall social welfare expenditure can be noted between 1997 and 1999. As investigated above, it was solely due to the expansion of the state and enterprise sector in the welfare mix. As seen from Figure 5.3, Korea until 1996 fundamentally presents the well-balanced nature of the welfare mix system among the four major sectors – the state, market, enterprise and family – even though the importance of the state and enterprise sectors began to increase slightly from 1993. In 1990, the expenditure of the family sector took the largest share of the welfare mix. Whilst the expenditure level of the family tended to decrease and the expenditure of the market sector remained steady over the period, the relative importance of the state and enterprise sectors has been outstandingly reinforced since 1997. The gap between the two groups, therefore, has widened due to the rapid expenditure increases in the state and enterprise sectors. If it is the case, why have these structural changes happened?

As the shock of economic globalisation reached its peak during 1998, the expenditure of the enterprise sector can be recorded at its highest point throughout the period. This was due to the massive increase in the mandatory severance pay-offs that employers had to pay their employees when they lost (or resigned) their jobs. Although the expenditures on voluntary enterprise welfare tended to fall, the increase in mandatory welfare expenditures overwhelmed the decreases in the voluntary enterprise welfare. Once the massive unemployment period had passed, the burden on employers

for mandatory severance payments decreased but still remained at a very high level because of the following industrial restructuring processes, which have occurred intermittently so far. Since the state has institutionally passed over its responsibility for unemployment compensation to employers, the expenditures of the enterprise sector eventually increased dramatically due to the mass unemployment which took place in 1998. This phenomenon can be understood by an interpretation that the institutionalised regulation set by the state at an earlier time induced the unintended rapid increase of expenditure in the non-state sectors.

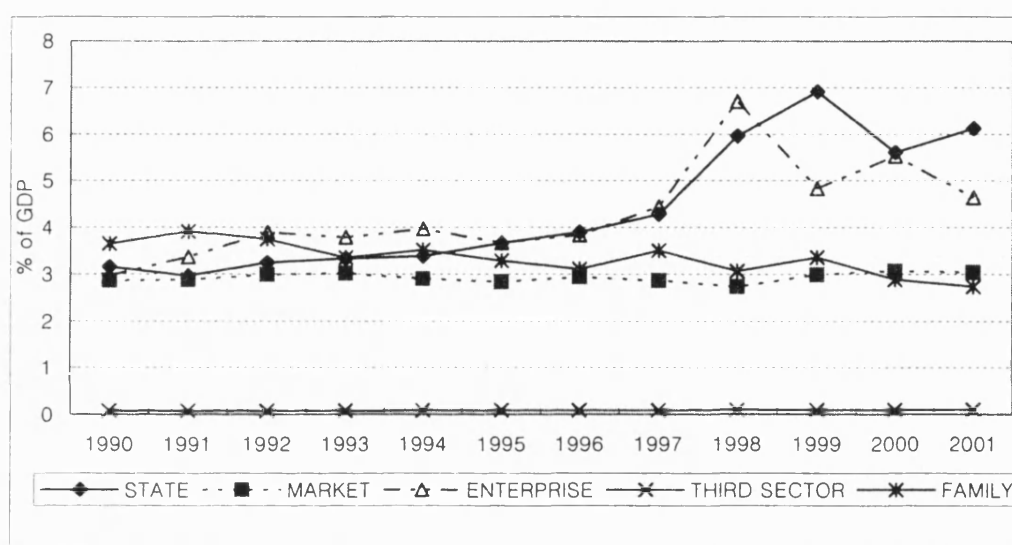


Figure 5.3. Trends of the Welfare Mix Expenditures: Social Protection and Health
Sources: see Table. 5.8

In case of the state sector, a time lag phenomenon can be observed – its expenditure level reached at peak in 1999. Although there were major institutional changes to state welfare including the universal coverage of social insurances, public assistance and health reforms between 1998 and 2000, those changes could not instantly have contributed to increases in state expenditure levels. Instead, the government had to invest greatly between 1998 and 1999 to deal with the massive, but perceived as temporary, unemployment and the other social problems caused by the economic crisis. The government allocated more public finance in 1999 than it did in 1998. The state's expenditure decreased in 2000 when unemployment reduced, but it began to increase

again from 2001. Such increases seem to be due to the institutional expansion of state welfare rather than temporary state welfare programmes.

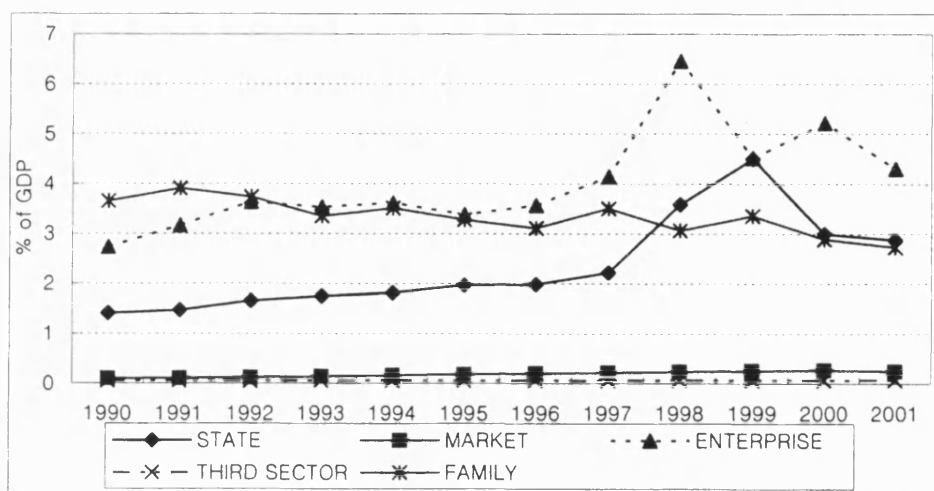


Figure 5.4 Trends of the Welfare Mix Expenditures: Social Protection
Sources: see Table 5.8

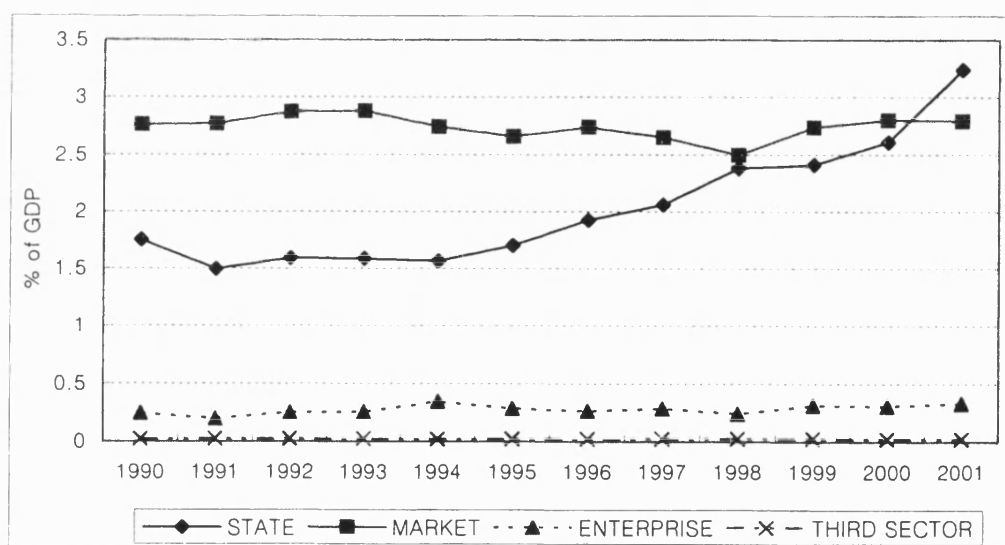


Figure 5.5. Trends of the Welfare Mix Expenditures: Health
Sources: see Table 5.8

However, the third sector has remained minuscule in terms of expenditure levels over the period, and the importance of the market and family has faded or remained

static. The family had taken the largest share in 1990 but took the fourth largest share from 2000. The expenditures of the market sector remained at around a 3 per cent level of GDP throughout the research period. Nonetheless, the family and market sectors still remain as some of the most important providers of social protection and health care respectively (see Figure 5.4 and 5.5). In social protection expenditure, despite the significant decrease over time, the importance of the family should not be ignored; its expenditure level was almost same as that of the state in 2000 and 2001. The market sector revealed a relatively consistent level of expenditure on health (around 2.7 per cent of GDP) and it was after 2001 that the state's expenditure on health became more important than the expenditure of the market sector. In addition, the expenditures of the market sector on social protection increased continuously showing a slow increasing trend⁵.

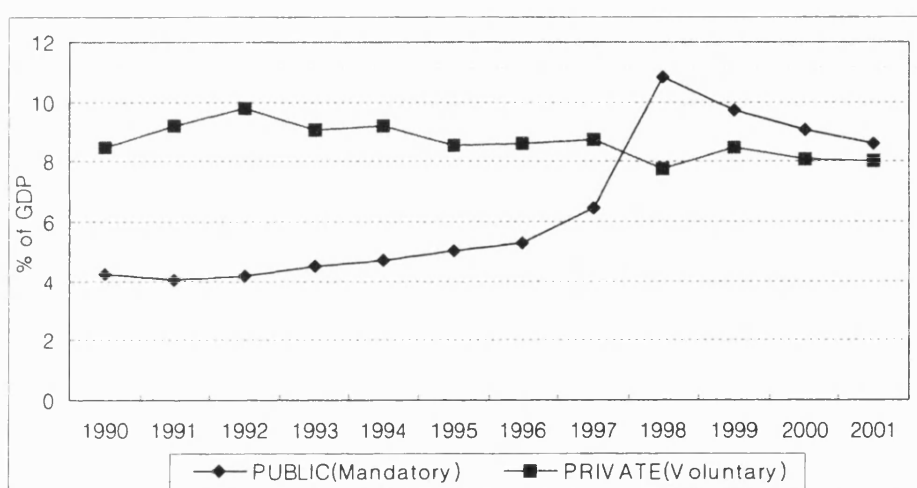


Figure 5.6. Private/Public Dichotomy Model

Sources: see Table 5.8

To be able to find the dynamic nature of the welfare mix, it seems useful to apply different approaches to the welfare mix by reorganising the classifications of the sub sectors of the welfare mix; i.e., public-private dichotomy and public-market-

⁵ Nevertheless, it seems sceptical that private life insurance has a social protection function in Korea, especially when we consider Korea has one of the largest insurance markets. In 1999, the gross amount of claims paid in life insurance corresponded to 7.8 per cent of GDP, but the proportion of claims paid for a 'social' purpose (the death, illness and accident of the insured) was no more than 0.25 per cent of GDP (KIDI, 2000). After all, life insurance in Korea seems to reveal the typical features of individual savings.

community welfare triangle model. At first, the mandatory enterprise benefits can be classified as public because they are based on the state's legal and compulsory framework, then we can draw up another type of graph that shows the public-private dichotomy in gross welfare mix expenditures. As Figure 5.6 indicates, the public (mandatory) expenditure on social protection and health began to exceed that of the private sectors from 1998 and we can conclude that such a sudden leap in the public sectors' expenditure caused the rapid increase in the gross welfare mix expenditure in 1998.

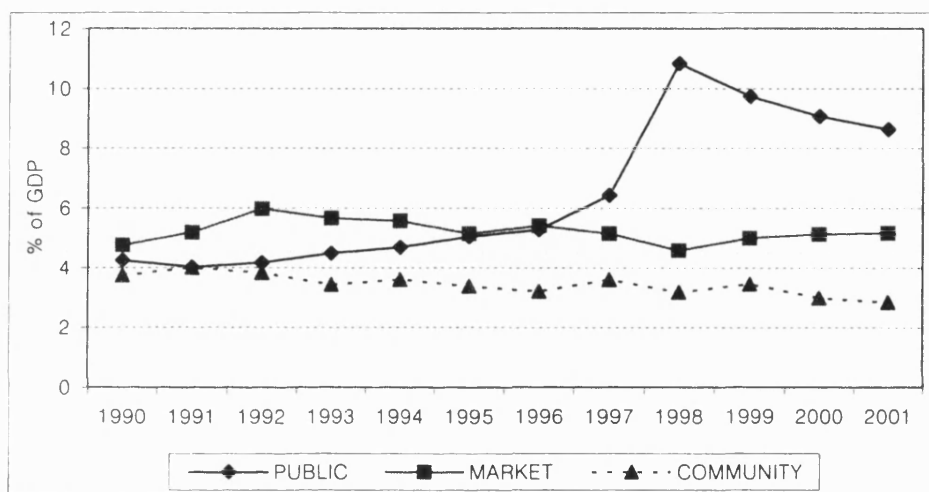


Figure 5.7. Public-Market-Community Triangle Model

Sources: see Table 5.8

On the other hand, in terms of the private-public dichotomy, the private sector dominance of the welfare mix structure of 1990 changed into a public sector-led welfare mix or, at least, a balanced welfare mix between the public and private sectors until 2001. The share of the expenditure of the private sectors (the family, the third sector, the market and the voluntary enterprise sector) made up two thirds of gross welfare mix expenditure in 1990, but the expenditures of the public sectors (the state and the mandatory enterprise sector) exceeded more than half (52 per cent) of the gross sum. Furthermore, when we apply Korea's expenditure data to the welfare triangle model, the dominance of the public sector appears more evident (see Figure 5.7). Whilst the importance of community (the third sector and the family) and the market (the market

and the voluntary enterprise sector) remained steady or decreased slightly, the public sector (the state and the mandatory enterprise sector) has emerged and remained as the most important sector since 1997.

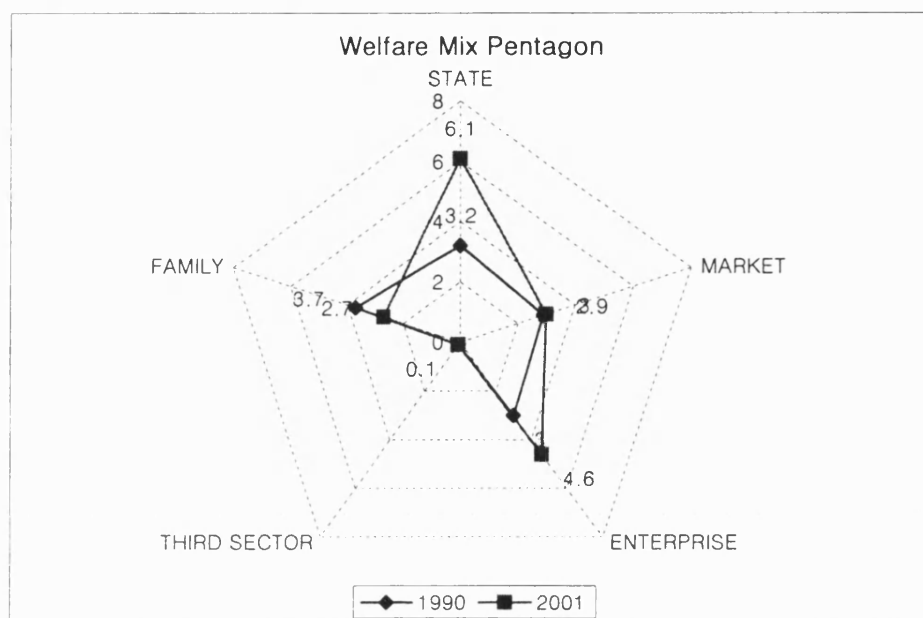


Figure 5.8. Welfare Mix Pentagon Model (Social Protection and Health, % of GDP)

Sources: see Table 5.8

Lastly, Figure 5.8 presents the welfare pentagon model proposed above (Chapter 2). Here we can compare the welfare mix structure of both the first and the last year. Compared with 1990, the expenditure of the state was double and the expenditure of the enterprise sector rose by 50 per cent in 2000. On the other hand, there was almost no change in the expenditure of the market sector, and the expenditure of the family sector even decreased by 1 per cent of GDP. In terms of expenditure, overall, we can summarise that, in spite of the constant importance of other sectors, the welfare mix structure of Korea has changed from a genuinely balanced welfare mix to a 'public-leading' welfare mix, especially when mandatory enterprise welfare benefits are considered as part of the public sector. Even so, the very mixed nature of the welfare mix in Korea has hardly changed and the role of the state, at least as a direct financer, remains very weak, compared with its Western welfare states counterpart as can also be seen in Table 5.7.

5.5. Summary and Conclusion

In this chapter, based on the welfare pentagon model proposed in Chapter 2, I have attempted to indicate that there were significant changes in the structure of welfare mix expenditure during the relatively short period between 1990 and 2001. First of all, the genuinely mixed welfare mix structure had been transformed into a public-leading one by 2001. As seen from Table 5.9, the gross welfare mix expenditure increased by 4 per cent of GDP between 1990 and 2001, but this does not seem to be a dramatic increase. Nonetheless, the inner structure of welfare mix expenditure changed significantly. In 1990, the relative importance of the four major sectors – state, market, enterprise and family – was roughly the same (one-fourth each) although the family sector took the largest share. By 2001, however, the state sector had become the largest sector in terms of the expenditure (36.8 per cent), followed by the enterprise sector (27.9 per cent) and the market (18.3 per cent) sector. The family sector, by contrast, had fallen down to be the fourth largest sector.

Table 5.9. Changes of the Welfare Mix Expenditure Structure: Summary

	Per cent of GDP			Per cent of gross WM expenditure		
	1990	1995	2001	1990	1995	2001
State	3.2	3.7	6.1	24.8	27.1	36.8
Market	2.9	2.8	3.0	22.5	20.9	18.3
Enterprise	3.0	3.7	4.6	23.3	27.1	27.9
Third Sector	0.1	0.1	0.1	0.6	0.6	0.6
Family	3.7	3.3	2.7	28.7	24.2	16.4
Total	12.7	13.5	16.6	100.0	100.0	100.0

Sources: see Table 5.8

Following the ‘Great Struggle of Labour’ between 1987 and 1990, the expenditure on enterprise welfare benefits increased significantly during the early 1990s. Between 1995 and 2001, the rapid increase in state welfare expenditure and some fluctuations in the enterprise sector dominated the overall expenditure structure of the

welfare mix. Although the voluntary enterprise welfare expenditure decreased during the economic recession of 1998/9, expenditures on the mandatory benefits that the state's previous intervention had resulted in, far exceeded the decreased share of voluntary enterprise welfare expenditures. The relative importance of state welfare expenditure increased to 36.8 per cent of gross expenditure by 2001. If the mandatory enterprise welfare benefits had been included in the 'public' category, from 1998 the public expenditure began to exceed that of the private sectors (market, voluntary enterprise, third sector and family) (see Figure 5.6). By contrast, as the relative importance of the state and enterprise sectors grew within the gross welfare mix expenditure figures, the figures of the market sector decreased even though its share of the market sector as a percentage of GDP remained at 3 per cent level. In addition, the gross value of private transfers decreased in terms of both the percentage of GDP and its share of the gross welfare mix expenditure. Lastly, in terms of expenditure, the role of the third sector was always marginal in the welfare mix.

Nonetheless, the welfare pentagon expenditure model remains a quantitative or monetary concept. Fundamentally, it cannot demonstrate the institutional and qualitative aspects of the welfare mix such as the coverage of state benefits, the inequality of market and enterprise welfare benefits, the pervasiveness of private health and pension markets, the advocacy role of civil society and some fundamental roles of the family like the co-residence of the elderly with their adult children. These features are of immense importance but almost impossible to calculate in monetary terms. In this respect, the expenditure study and analyses of institutional and more qualitative features should mutually complement each other. Our next task in the following chapter, therefore, is to demonstrate the institutional-qualitative features of the welfare mix.

CHAPTER 6. THE WELFARE MIX CHANGES BETWEEN 1987 AND 2002: DEVELOPMENT AND PROVISIONS

Whereas the general historical development of the welfare mix since the 1960s and its institutional legacies have been discussed in section 4.3, the focus of the research in this chapter is restricted to changes in the welfare mix during the research period between 1987 and 2002. The main task of the chapter is to present and analyse the changes to welfare mix provision. Based on a wide range of empirical evidences on the welfare provisions of the five sectors, I attempt to illuminate the overall shape of the welfare mix structure and its dynamics during the research period. To do so, it is inevitably necessary to collect and synthesise all the split materials and analyses of previous studies on the separate sectors together, since I have hardly found any systemic research on the overall welfare mix in Korea. At the same time, based on reorganising various primary and secondary sources, I shall introduce new material and data of my own where other scholars' works provide an insufficient empirical foundation. I shall sort and categorise all the data and information related to the various kinds of welfare mix provision and, based on them, provide new conceptual interpretations to develop my own arguments.

This chapter has six sections. From the first to the fifth section, I shall present and analyse the development and changes to the welfare provisions of the state, market, enterprise, third and family sector respectively. Based on this sector-based work, comprehensive discussion on the changes to the welfare mix and arguments on their path-dependent tendency will be dealt with in the final section.

6.1. State Welfare

Fuelled by the political democratisation of 1987¹, the period between 1987 and 1989 was the heyday of the labour movement in Korea² and there was an expansion of social insurances at the same time. The National Pension Insurance (hereafter NPI) was launched in 1988 and coverage of the Medical Insurance was universalised for the first time in 1989. In the early 1990s, there was a massive swathe of social service legislation including employment facilitation services for the disabled, social services for mothers with young children and a child care system. The period between the late 1980s and early 1990s can be seen as the third wave of 'massive social welfare legislation' and some scholars named the period as 'welfare explosion' (Kim and Sung, 1993: 331). In a sense, the nature of the legislation in the third period seems quite different from the previous ones; whilst the former two periods of welfare legislations related to the emergence of the respective military regimes, the latter one referred to the exit of a military regime (C.S. Nam, 2000: 28). From this period onwards, the state began to adopt welfare legislation as an important strategy to cope with the overall socio-economic conditions including the political dynamics within the labour market, and not just as an instrument to secure the regimes' political legitimacy (*Ibid*: 30). In other words, as shall be discussed in the following chapter, it has been since 1987 that, based on the labour and civil society movements, welfare state development, and probably the welfare mix in general, has been subject to genuine interaction between environmental factors, political institutions and welfare politics.

Nevertheless, the basic perception of the government on the social welfare system hardly changed in the 1990s. Under the banner of international competitiveness, the government executed a set of neo-liberal economic reforms including a reduction in state intervention, deregulation of the market and privatisation of main public enterprises by 1997. All the programmes reinforced the logic of the market, and the social welfare system was not an exception to this trend. Instead, the higher political legitimacy of the Kim Young Sam government made possible even stronger market-friendly or market-confirmative social policies, without the need for massive social

¹ See section 4.2.1.

² See section 3 and Table 6.16 of this chapter.

welfare legislation. As had been the case during previous military regimes, there was a wide recognition that the social welfare system in general should not impose a burden on the economy and the level of benefits should not hinder the incentive to work (Shin, 2000: Chapter 7; H.K. Lee, 1999). Although the outline for the welfare state had been completed by the mid-1990s through the introduction of the Employment Insurance System (hereafter EIS) and the expansion of NPI coverage to the rural self-employed in 1995, the basic orientation of the state welfare system – a minimisation of benefit levels and the maintenance of a minimal financial responsibility – was thoroughly retained. The social welfare spending of the central government for five years under the Kim Young Sam government (1993-1997) remained at a similar level to that of the Rho government (1988-1992); i.e., average 4.3 per cent of the total government expenditure or 0.8 per cent of GDP (see Table 4.8).

The real changes began to occur in order to cope with the drastic socio-economic problems caused by the economic crisis in 1997. Under the Kim Dae Jung government (between 1998 and 2002), there were significant welfare reforms such as; first, the coverage of all social insurance systems becoming universal; secondly, the pre-modern public assistance system was reformed to form a new system; third, social services for the disabled, the elderly and the unemployed were expanded; fourth, there was legislation about the common fund-raising system for private welfare institutions (the Korean United Way); lastly, all of these reforms required more public resources and the public social expenditure³ increased rapidly. Although evaluations of these reforms differ greatly⁴, the welfare reforms of the Kim Dae Jung government seem relatively progressive when compared with those of previous regimes. However, there has been strong evidence that the historical legacies of state welfare and earlier state interventions in social welfare remain within the welfare reforms of the Kim Dae Jung government⁵. The expansion of social insurance coverage was based on the existing institutional settings rather than on a more radical institutional change. Strong familialism remained even in the new public assistance system. In social services, the government still utilised the third sector rather than provided direct services. The government emphasised the

³ For the increase of public expenditure on social protection and health including the expenditures from social insurance funds, see the expenditure study in the following chapter.

⁴ Refer to Epilogue.

⁵ Details on the historical legacies of welfare mix changes including state welfare under the Kim Dae Jung government will be discussed in the Chapter 7. And brief investigations on the role of the private sector and related state's interventions are also dealt with in the remainder of the Chapter.

role of private sectors in the delivery and finance of social welfare provisions, including an expansion of the market sector. And, despite the rapid increase of public social welfare expenditures, the main share was paid for by social insurance funds but the direct financial burden on the state (the central government) still remained very low (see Table 4.8 again).

In this section, the state welfare provisions – the social benefits and services provided by the state and other public agencies – are categorised into three main types according to their institutional features; i.e., social insurance, public assistance and social services. Since there have been many studies on state welfare in Korea, I mainly summarise them, update them and add some data to them where necessary. From now on, let me investigate the major changes in state welfare provision, to begin with looking at the social insurance institutions.

Social Insurances

Most importantly, new social insurance institutions were introduced, and the coverage of all major social insurances, including the new ones, was universalised until 2000. As mentioned above, traditionally social insurances have been pivotal in the social welfare system in Korea because they were the only way in which the previous (military) governments could introduce social welfare programmes without direct financial contributions from the state. Therefore, the coverage of social insurance institutions has been expanded from the employees of large-size firms, from which the government or public administration agencies could easily collect social insurance contributions, to those smaller sized firms and the self-employed (see Table 6.1). Except for the National Health Insurance (the National Medical Insurance until 1999), which was universalised to the entire population in 1989, it was between 1998 and 2000 that the coverage of the other social insurances became universal. In the midst of the Economic Crisis and at a time of mass unemployment, the Employment Insurance System (EIS) covered the entire regular and a part of irregular workers during 1998 even though the EIS was launched most latterly (in 1995). This schedule was an earlier one than the original plan that was about to be universal by 2000. In case of the National Pension Insurance, launched in 1988, its coverage was expanded to the employees of workplaces with 5 or

more in 1992, to farmers and other rural self-employed in 1995 and, finally, became universal in 1999, thus including the urban self-employed and the workers who were excluded from workplace schemes. At last, in 2000, the Industrial Accident and Injury Compensation Insurance⁶ (IAICI) covered all workplaces.

Table 6.1. Expansion of Compulsory Coverage of Social Insurance Institutions

	Before 1990	1992	1995	1998	1999	2000
National Pension	Workplaces with 10 or more ('88)	5 or more	Rural self-employed		Urban self-employed	Universal coverage
Health Insurance	Universal Coverage ('89)					Universal Coverage
Industrial Accident	Workplaces with 10 or more ('82)	5 or more ('88~'92)				All workplaces
Employment Insurance			Workplaces with 30 or more	All workplaces		All workplaces

Source: Ministry of Health and Welfare, *White Paper on Health and Welfare*, various years; Ministry of Labour, *White Paper on Labour*, various years.

Officially speaking, it can be said that the coverage of social insurance institutions was universalised by 2000. However, with an exception of the public health schemes (the NHI and medical aid programmes), the real coverage rates seem far from the 'universalism' (see Table 6.2). Until 1985, the coverage rate of public pension schemes remained at 5.5 per cent of total employed because some privileged occupational groups – soldiers, government employees and private school teachers – already had their own pension schemes from a time when the NPI scheme had not been introduced. The coverage rate of public pension schemes increased to 31.2 per cent when the initial compulsory coverage of the NPI was raised to workplaces with 10 or more employees. In 1995, when the NPI was extended to the rural self-employed, the coverage rate increased again. In the final stage, the NPI was universalised in 1999 and the urban self-employed were covered. Although the actual coverage rate almost doubled between 1990 and 2000, still 40 per cent of the total employed were not covered by one of the public pension schemes because around 5 to 6 million members

⁶ It is *compensation* insurance. It means that the insured of the IAICI are employers and all contributions are taken from them.

of the NPI had not contributed to it. Most of these non-contributing insurants are low-income earners, irregular workers, the unemployed and the small scale self-employed. The existence of such a large number of non-contributing insurants had largely been due to the failure of income assessments, the insufficient administrative ability of the government as well as contribution evasion by some professional groups (Kim and Kim, 2004). On the other hand, coverage of the IAICI further reduced until 1999. This seems due to the fact that, whilst the legal coverage expansion had not changed during the period, the proportion of those employed in industry had decreased but new service employment not covered by the IAICA had increased continuously (see also Table 4.4). In 2000, when the legal coverage became universal, the rate increased by 10%. In the case of the EIS, the real coverage rate is the lowest because the majority of irregular workers are excluded from it.

Table 6.2. Actual Coverage Rate of Social Insurances

(Thousand, % of total employed, % of population, % of non-agricultural employed)

	Total Employed	Non-agricultural		Coverage Rate of Social Insurance			
		No.	% of total	Public Pension ¹	Health ²	IAICI ³	E.I.S ⁴
1985	14,970	11,165	74.6	5.5	44.1(52.1)	40.3	N.A.
1990	18,085	14,629	80.9	31.2	Universal	51.6	N.A.
1995	20,414	17,729	86.8	41.1	Universal	44.5	23.7
1996	20,853	18,237	87.5	41.2	Universal	44.7	23.7
1997	21,214	18,644	87.9	40.3	Universal	44.2	23.0
1998	19,938	17,330	88.9	38.8	Universal	42.8	29.7
1999	20,291	17,765	87.6	58.5 (85.7)	Universal	41.9	34.1
2000	21,156	18,650	88.2	60.9 (81.9)	Universal	50.9	36.2
2001	21,572	19,125	88.7	59.9 (80.7)	Universal	55.3	36.1

1. The gross sum of the actual coverage of the National Pension Insurance, the Government Employees Pension and Private School Teacher's Pension schemes as a percentage of the total employed. The figure in brackets from 1999 is the ratio including the number of non-contributing regional insurants.

2. In 1985, 44.1 per cent of the population was covered by the Medical Insurance. If we include medical aid programmes, the coverage rate of public health programmes was 52.1 per cent. Universal coverage from 1989, included beneficiaries of medical aid programmes.

3. The Industrial Accident and Injury Compensation Insurance, as percentage of the non-agricultural employed.

4. The Employment Insurance System, as percentage of the non-agricultural employed.

Sources: Ministry of Health and Welfare, *Statistical Yearbook of Health and Welfare*, various years; Korea Labour Institute, *KLI Labour Statistics*, various years.

Table 6.3. International Comparison for the Labour Market Structure: 1998
(per cent of total employed)

	Paid Employed			Family Workers	Self-employed
	Sub Total	Regular	Irregular		
Sweden	89	78	11	0	10
Norway	92	81	10	1	8
Germany	89	78	11	1	10
France	89	77	12	0	11
Netherlands	88	77	11	1	11
Italy	72	65	6	4	24
UK	87	81	6	1	12
US	92	-	-	0	8
Japan	83	73	10	6	12
Korea	62	30	32	9	29

Sources: National Statistical Office (Korea), Ministry of Labour (Japan), and Labour Force Statistics 1999 (OECD 2000: 37); all recited from M.K. Jung (2002: 421).

Table 6.4. Actual Coverage of Social Insurances: Regular vs. Irregular Workers

	NPI (workplace ¹)		NHI (workplace ¹)		EIS	
	2001	2002	2001	2002	2001	2002
Paid Employed (Total)	51.8	52.3	54.3	55.1	46.9	47.4
Regular Employed	92.7	92.2	94.8	94.6	80.0	79.1
Irregular Employed	19.3	21.5	22.2	24.8	20.7	23.2

1. Ratio of workplace insurants, half of their social insurance contributions are paid by employers. Regional insurants have to pay all the contributions by themselves. The state only supports rural NHI insurants for an amount corresponding to the half of the NHI contribution of the lowest income bracket.
Source: Jung et al., 2004: 393.

However, the actual coverage rates of social insurance institutions have been far from universal. These issues are closely related to the structural problems of the labour market in Korea. Traditionally, whereas the proportion of the self-employed and their non-paid family workers has been high, the proportion of the paid employed began to exceed 60 per cent of the total employed after 1990 (see Table 4.4). The existence of such a high proportion of self-employed and their non-paid family workers seems more outstanding when compared to the labour market structure of other OECD nations. As seen in Table 6.3, whereas more than 80 per cent of the total employed were paid

employed in most other OECD nations (except Italy), the rate was only 62 per cent in Korea. Since the IAICI and EIS have been mainly targeted towards industrial employees, the existence of such a large number of the self-employed people led to a relatively low actual coverage rate for them. Also, as mentioned above, it has been the main barrier to the expansion of the NPI scheme because there have been severe difficulties in the income assessment process as well as the administrative ability of the government to cover small scale self-employed workers.

Moreover, what has made matters worse since the financial crisis has been the increase in irregular employment. The rising irregular employment problem and the issue of the social exclusion of irregular workers have appeared as one of the most contentious issues in recent social policy debate in Korea (Ahn et al., 2001; J.K. Kim, 2001, 2002; Y.M. Kim, 2001; Y.S. Kim, 2001; M.K. Jung, 2000, 2002; Jung et al., 2004). As repeatedly indicated, social insurance is the main type of institution in the overall social welfare system in Korea, and to be covered by social insurance systems workers are required to be employed in a stable workplace so that they and their employers can pay social insurance contributions. However, as discussed in chapter 4, due to the Economic crisis and following restructuring, the speed of the increase in the number of irregular workers dramatically accelerated (see Table 4.4). In 1995, the ratio of regular workers was 58.1 per cent of total paid workers, but from 1999 it decreased to below 50 per cent. Table 6.3 indicates that the ratio of regular paid workers corresponded to 30 per cent of the total employment in 1998. According to Hwang (2000), in 2000 58.4 per cent of total paid employment jobs were irregular jobs. It therefore can be said that the relatively low actual coverage rates shown in Table 6.2 were largely due to the rapid increase in irregular employment, or structural changes to the labour market in general. As a matter of fact, Table 6.4 shows that the majority of irregular workers are excluded from major social insurance systems; whereas more than 90 per cent of regular workers are covered by the workplace schemes of the NPI and the NHI (half of their contributions paid by their employers⁷), most irregular workers (75~80%) are excluded from the social insurance coverage or placed in the regional scheme (all the contribution are therefore paid by themselves). In case of the EIS, approximately 80 per cent of regular workers are covered by it, but more than 80 per cent of irregular workers are

⁷ Along with the self-employed, employees of workplaces with 4 or less or most irregular workers have to be placed with the regional insurants, without employers' social insurance (NPI and NHI schemes) contributions.

excluded from it. Similarly, it is known that 60% of irregular workers were not covered by the IAICI in 2000 (J.W. Hong, 2000).

Public Assistance⁸

One of the most important reforms during the research period was the enactment of the 'Basic Livelihood Security Law' of 1999. It replaced the existing 'Livelihood Protection Act', which was enacted by and amended a few times by military regimes. Some have evaluated that, despite a few critiques, the public assistance system in Korea has become modernised (J.Y. Moon, 2001; Y.M. Kim, 2002; B.Y. Ahn, 2000). Under the old public assistance programmes which continued until September, 2000, the recipients were categorised into two major groups. The first group that was entitled to receive livelihood protection benefit was very restricted according to a set of conditionalities; means-tests, demographic conditionality and the 'condition of support obligator'⁹. The other group included the able-bodied but met the means-tested requirement. The number of recipients of livelihood assistance benefits, self-reliance benefits and medical aid decreased continuously until 1998, and the government budget never exceeded 0.2 per cent of GDP. However, this by no means indicates that more and more people escaped from poverty, but just points out the custom that the government set its budget first and then allocated to a number of recipients under its fixed budget (W.O.Jung, 1998; H.K. Lee, 1993).

The old Livelihood Protection programmes, however, could not cope with the mass-unemployment and rising poverty problems between 1998 and 1999, following the financial crisis. For most of the unemployed, no public benefit was available; the EIS was pre-mature and they were not entitled to livelihood protection benefits because they were able to work. Accordingly, in April 1998 the government introduced the 'Temporary Livelihood Protection System' for those who were not covered by the EIS.

⁸ More detailed processes of public assistance reforms shall be discussed in the following chapter. Here I only attempt to introduce briefly the trends in public assistance provision.

⁹ Under the past the Livelihood Protection Act, livelihood protection was given to those meeting all the conditionalities as follows; first, a demographic condition that those who cannot work because they are elderly, children, disabled or widowed; second, a means tested conditionality that their income and assets should be under the guideline set by the government; third, they must not have family or kin who can support them.

It provided the low-income unemployed with temporary livelihood protection benefit and public temporary jobs. The number of recipients totalled 311 thousand in 1998 and 570 thousand in 1999. In addition, the expenditure on support for low-income households had more than doubled between 1997 and 1999 (see Table 6.5), from 0.2 to 0.4 per cent of GDP. At the same time, social movements¹⁰ for public assistance reform began to be more active, and their voice influenced the new government's reform plan. The socially devastated situation at that time became an effective instrument to confront the opposite arguments of capital and conservatives.

Table 6.5. Main Indicators of Public Assistance Programmes

(Thousand, per cent of total population, Billion won, per cent of GDP)

	Recipients			Gov't Budget ¹	
	<u>Livelihood</u>	<u>Self-reliance</u>	<u>Medical aid</u>	<u>Bn won</u>	<u>% of GDP</u>
1985	345 (0.8)	1,928 (4.7)	3,259 (8.0)	148	0.2
1990	421 (1.0)	1,835 (4.2)	3,930 (9.2)	386	0.2
1995	385 (0.9)	1,370 (3.0)	1,990 (4.4)	574	0.2
1997	374 (0.8)	1,040 (2.3)	1,642 (3.6)	927	0.2
1998	377 (0.8)	798 (1.7)	1,323 (2.8)	1,121	0.2
1999	409 (0.9)	766 (1.6)	1,637 (3.5)	1,945	0.4
	<u>Basic Livelihood Security</u>		<u>Med. Benefit</u>		
2000	1,489 (3.2)		1,570 (3.3)	2,409	0.5
2001	1,420 (3.0)		1,503 (3.2)	3,270	0.6
2002	1,351 (2.8)		1,421 (3.0)	3,403	0.6

1. Support for low income households only, i.e. Livelihood Protection (Basic Livelihood Security) and medical aid programmes, excluding supports for veterans and survivors, natural disaster victims and the refugees from North Korea.

Sources: Ministry of Health and Welfare, *Statistical Yearbook of Health and Welfare*, various years.

Under the public assistance reforms, the paternalistic feature of the system was replaced by a social right and demographic conditionality was abolished. In addition, the existing flat rate benefits were replaced by supplementary benefits. The abolition of demographic conditionality allowed the number of livelihood benefit recipients to be multiplied by three and half times; from 409 thousand in 1999 to 1489 thousand in 2000. The government budget for public assistance programmes has increased rapidly and is

¹⁰ In reality, there already had been the movement dominated by a civil movement organisation (PSPD: People's Solidarity for Participatory Democracy, established in 1994) and a few related scholars. See the following chapter.

up to 0.6 per cent of GDP (see Table 6.5). But the abolition of demographic conditionality has been accompanied by workfare conditions for those who have the ability to work. They have been entitled to livelihood benefit on the condition that they participate in the workfare programmes run by government and other public agencies. Nevertheless, the underdeveloped nature of the previous public assistance system has also been reflected in the government's primary concern for 'family responsibility'. However poor they were, the old public assistance programmes did not make payments to recipients who had family able to support them. Unfortunately, this primary principle of family responsibility has been maintained in the new public assistance system under the guise of 'the condition of support obligator'¹¹.

Social Services

Whilst income security looks to rectify problems with the distribution mechanism of the market, social services are the social mechanism that supplements and prevents the failure of the family's socialisation, reproduction and caring functions. Generally speaking, where the tradition of familialism is stronger, the slower the speed of social service development a larger resistance to the social service system is expected (H.K. Lee, 2000: 194-7). As in the public assistance system, the state has intervened in the traditional family domain only when family's functions fail. Traditionally, as discussed in the chapter 4, the state's responsibility as a provider of social services has been relatively restricted and its role has been mainly as a regulator and financial supporter. Even when the problem of family dissolution during the Economic Crisis was severe, the state depended upon reforms related to income security yet hardly reformed the social service system. Similar to the principle of the 'condition of support obligator' in public assistance, the state has not replaced or complemented the role of family but has maintained the 'subsidiarity principle' that can be found in Conservative welfare states (C.S. Nam, 2002: 167-9).

Nevertheless, there had been some development of social services in the 1990s. Firstly, despite far from universal social services, the number of social service institutions including nurseries, community welfare service centres and day-care

¹¹ For details, see footnote 5 of Chapter 4.

facilities for the disabled, elderly and children increased under the financial supports of the state¹². As seen from Table 6.6, the expenditure on personal social services including residential care and non-residential services, increased steadily. Of course, the government still has utilised third sector organisations in the delivery of social services, rather than expanded public social service programmes, and most government expenditure has made up their financial supports. Secondly, there was some improvement to the state's indirect intervention through legislation and regulation. A set of legislation concerning sexual and domestic violence was enacted to set the legal foundation for the related social services for women. In 1998, the government initiated compulsory regulation over the convenience facilities for the disabled in public places. In addition, in 2000 the categories of disablement widened to incorporate some kinds of chronic illness including autism and a few cases of kidney and heart disease.

Table 6.6. Social Service Expenditure of the State Sector

(Billion Won, per cent of GDP)

	Total		Residential ^a		Non-res. svc ^b		Employment ^c		Health svc ^d	
		%GDP		%GDP		%GDP		%GDP		%GDP
1990	1,103	0.62	52	0.03	104	0.06	100	0.06	846	0.47
1991	1,090	0.50	64	0.03	128	0.06	97	0.04	801	0.37
1992	1,652	0.67	74	0.03	174	0.07	166	0.07	1,238	0.50
1993	1,817	0.65	85	0.03	239	0.09	189	0.07	1,304	0.47
1994	2,261	0.70	123	0.04	297	0.09	319	0.10	1,523	0.47
1995	2,935	0.78	138	0.04	424	0.11	418	0.11	1,956	0.52
1996	3,578	0.86	163	0.04	580	0.14	501	0.12	2,334	0.56
1997	4,446	0.98	216	0.05	797	0.18	808	0.18	2,626	0.58
1998	5,799	1.31	216	0.05	840	0.19	2,049	0.46	2,694	0.61
1999	7,090	1.47	197	0.04	915	0.19	3,056	0.63	2,922	0.61
2000	6,657	1.28	258	0.05	1,152	0.22	2,276	0.44	2,970	0.57
2001	6,701	1.21	355	0.06	1,357	0.25	1,483	0.27	3,506	0.64

a. Residential care for the disabled, the elderly and children

b. Non-residential services include home care, home-help, day care and other personal social services for the disabled, the elderly, children and women.

c. Employment and other related services for workers. This category includes public employment creation, vocational training and employment services for the disabled and the elderly.

d. Public health services including state hospitals for the disabled and special patients, public health centres, public hygienic, disinfections and etc.

Source: Kho et. al. (2003); Bank of Korea, *National Accounts*, various years

¹² Since the government has utilised the third sector in social service provision and encouraged welfare pluralism including the market sector, detailed discussions of the trends in social service provision pass over to the following sections of this chapter.

Table 6.7. Public Employment Service Agencies

	1996	1997	1998	1999	2000	2001
Employment Counsellor	40	100	1,296	1,825	1,919	1,949
Employment Agencies Total	52	53	134	157	149	191
Regional Labour Office	46	46	-	-	-	-
Employment Security Centre ^a	-	-	99	122	126	168
Manpower Bank	3	7	20	20	7	7
Other ^b	3	-	15	15	16	16

a. Established from 1998, a few divisions of regional labour offices became independent agencies for one-stop employment related services.

b. Employment Service Centre for Professionals and Job Centres for Daily Workers

Source: Korea Public Administration Association, 2002: Table 2.3 and Table 5.2.

Thirdly, in 1998 the Social Welfare Collaborative Fund Raising Conference (SWCFRC, which is called the 'Korean United Way') was established by a government's legislation. Despite the government's various interventions, the SWCFRC has been successful in terms of the establishment of collaborative private fund raising and distribution system. Lastly, after the Economic Crisis and the mass unemployment of 1998, public employment service system was expanded. As shown in Table 6.7, the number of public employment service agencies almost tripled between 1997 and 1999; 53 agencies in 1997, 134 in 1998 and 157 agencies in 1999. The increase of professional employment counsellors was more dramatic; from a hundred in 1997 to almost two thousands counsellors in 2000. In 1999, for example, the employment agencies connected 31.9 thousand among 1.7 million job-seekers enrolled in the agencies (MOL, 2000: 129-30).

6.2. The Market Sector

According to the expenditure study of the previous section, the expenditure scale of the market sector revealed a static trend during the research period, i.e., approximately 3 per

cent of GDP. However, it is hard to say that the importance of the market sector has also stagnated within the overall welfare mix structure of Korea. There is strong evidence that indicates the growth of the market sector in welfare provisions during the 1990s. The main features of welfare markets are conceptualised as growing private insurance markets, private dominance in health expenditure and growing private social service markets. That is to say, private insurance markets related to pension and health schemes have emerged and grown, and the dominance of the private sector in health expenditure has fundamentally remained. In addition, when the government began to commit to welfare pluralism in social services, market providers could have entered the personal social service markets (Baek, 1997). The analyses of these three trends has been substantially based on existing studies – like Park and Kim (2001) in private health insurance, Chang et al. (2002) in financial structure of health expenditure, and Kim and Shin (2003) in private employment services – but I also include my own analysis of primary data on life-insurance pay-outs, private individual pension schemes, and other welfare service markets.

Growing Private Insurance Markets

In the 1980s, as mentioned above (Chapter 4), private insurance markets had grown fast because commercial banks had provided relatively low interest rates under the government's industrial policy. Traditionally, for most people life insurances have not been differentiated from other types of financial savings. So the security function of life insurance has been very weak in Korea because people have cancelled life insurance contracts in times of financial difficulty. As seen from Table 6.8, more than half of the total pay-outs from life insurance contracts have been due to cancellation (surrender). Particularly, during the drastic economic recession between 1997 and 1999, there was a massive number of cancellations of life insurance contracts. Due to the massive cancellations, the total pay-outs rose to 10.3 per cent of GDP in 1998, and 5.9 per cent when the economic recession was the most severe in 1995. Paradoxically, these figures indicate the importance of the market sector in people's lives as well as the fragility of private schemes during times of economic recession, especially when the state welfare system had not matured or remained residual.

Table 6.8. Details of Pay-outs of Life Insurance

(Billion won, per cent of GDP, per cent of total pay-outs)

	Total Pay-outs		% of Total Pay-outs			
	Bn won	% of GDP	Claim Paid	Refunds	(Surrender)	Other
1985	2,490	3.1	42.1	56.5	(50.5)	1.4
1990	9,094	5.1	27.6	68.8	(60.8)	3.6
1995	22,404	5.9	22.4	75.4	(61.0)	2.2
1997	41,176	9.1	15.7	82.4	(71.6)	1.9
1998	45,654	10.3	18.3	79.7	(65.6)	2.0
1999	37,801	7.8	19.2	79.2	(67.1)	1.6
2000	37,385	7.2	22.1	76.3	(62.5)	1.6
2001	30,188	5.5	18.0	80.3	(57.8)	1.7

Source: Korea Insurance Development Institute, *Statistical Yearbook of Insurance*, various years.**Table 6.9. Private Health Insurance Market: 1996~2000.**

Amount (Billion Won)						
Year	Premiums			Claims Paid		
	Life	Non-Life	Total	Life	Non-Life	Total
1996	1,251	69	1,320	441	65	506
1997	1,498	97	1,595	638	107	745
1998	1,767	119	1,887	862	139	1,000
1999	2,243	199	2,442	1,232	221	1,453
2000	2,800	282	3,082	1,699	343	2,042
% of GDP						
Year	Premiums			Claims Paid		
	Life	Non-Life	Total	Life	Non-Life	Total
1996	0.30	0.02	0.32	0.11	0.02	0.12
1997	0.33	0.02	0.35	0.14	0.02	0.16
1998	0.40	0.03	0.42	0.19	0.03	0.23
1999	0.46	0.06	0.51	0.25	0.05	0.30
2000	0.54	0.05	0.60	0.33	0.07	0.39

Note) The medical expenditure from automobile insurance schemes are excluded from non-life insurance category.

Source: Reorganised from Park and Kim, 2001: 56; Bank of Korea, *National Accounts*, various years.

Table 6.10. Private Individual Pension Schemes: Comparison with the NPI

	(Thousand, Billion Won, per cent)							
	1994	1995	1996	1997	1998	1999	2000	2001
PIPS								
a. No. new contracts ¹	4,865	2,471	1,630	908	473	397	595	237
b. No. reserved contracts ¹	4,107	4,960	5,178	4,997	4,115	3,811	3,869	3,773
c. Yearly premium ²	2,341	5,385	5,561	5,232	4,426	4,159	4,243	3,594
d. Raised fund ²	1,939	5,416	8,954	12,051	13,965	16,804	19,635	22,358
NPI								
e. No of insured ¹	5,445	7,497	7,829	7,836	7,126	16,262	16,210	16,278
f. Yearly contribution ²	3,326	3,966	4,944	5,676	7,841	9,386	10,359	12,067
g. Raised fund ²	12,766	18,160	25,028	33,191	44,852	58,362	73,662	90,369
b/total employed (%)	20.7	24.3	24.8	23.6	20.6	18.8	18.3	17.5
e/total employed (%)	27.4	36.7	37.5	36.9	35.7	80.1	76.6	75.5
d/GDP (%)	0.6	1.4	2.1	2.7	3.1	3.5	3.8	4.1
g/GDP (%)	3.9	4.8	6.0	7.3	10.1	12.1	14.1	16.4
c/f (%)	70.4	135.8	112.5	92.2	56.4	44.3	41.0	29.8
d/g (%)	15.2	29.8	35.8	36.3	31.1	28.8	26.7	24.7

1. Thousand

2. Billion Won

Sources: calculated from J.W. Lee (2002) and MOHW (2003)

At the same time, from the early 1990s, there have been two important changes in private insurance markets, more specifically and thus closely related to welfare provision. The first is a growth in health insurance markets, and the second is the introduction of the Private Individual Pension Schemes (hereafter, PIPS). In a departure from traditional saving related insurance goods, insurance companies have actively marketed health-related commodities. As far as the earned premium is concerned, the market size of private health insurances reached 0.6 per cent of GDP in 2000 (see Table 6.9). This growth was mainly due to the enormous sales of the so-called 'Cancer Insurances' of the life-insurance industry, which covered specific diseases or illness like cancers, stroke and heart diseases. Since the individual financial burden for the treatment of these diseases or illness is very high, the sales of cancer insurances and other private health insurance have been very successful, even despite the existence of the NHI. In a sense, the success of private health insurance sales reflects the fact that the

low benefit level of the existing NHI programmes or the market dominance of overall health expenditure which is discussed below.

On the other hand, the PIPS market was introduced in June 1994, as defined-contribution plans with a period of at least 10 years contribution or savings¹³. Not only insurance companies but also commercial banks and other financial companies have been allowed to supply PIPS. The individual pension market grew fast for the initial three years because the government supported the PIPS market in the form of a tax benefit, whereby the premiums were deducted from the individual income tax base. As a matter of fact, as indicated from Table 6.10, the popularity of PIPS was 'explosive' until the financial crisis. The yearly-earned premiums of PIPS for the 30 months between June 1994 and December 1996 overwhelmed the gross yearly contributions of the NPI scheme during the same period. When we consider the National Pension Insurance (NPI) launched in 1988, the growth of the PIPS market seems more amazing; PIPS almost caught up with the NPI within 30 months. In 1996, the number of reserved PIPS contracts corresponded to 24.8 per cent of the number of total employed.

However, the fast growth of PIPS turned into massive cancellations from 1997 and continuous declines in all of the related indicators afterwards. It also indicates that private pension plans can be unstable due to economic conditions. Nonetheless, the importance of the private individual pension markets should not be underestimated; PIPS still cover one-fifth of the total employed and the level of the yearly premium exceeded 40 per cent of the yearly contributions of the NPI until 2000. Moreover, it seems too early to assert that the declining trend will continue because PIPS have not yet matured, and neither has the NPI. If the massive cancellations were concentrated in people facing financial difficulties, the implication would be that the unequal nature of market provision would have been reinforced in private pension schemes. Most of all, the introduction of the PIPS market and their substantial scales indicate that the market sector has permeated into the traditional income maintenance area.

The Dominance of the Private Sector in Health Expenditure

¹³ So the initial PIPS benefits are due to be provided from 2004, and until then PIPS cannot be included in the expenditure study.

Another important feature that should be included when one attempts to mention the market principle in the social welfare provisions of Korea is the dominance of the private sector in overall health expenditure. Although the public health programmes, the NHI and the Medical Aid programmes, began to cover the entire population from 1989, the financial burden on households would not have decreased dramatically because the Medical Insurance programmes have utilised the ‘low burden and low benefits’ principle. There has been a substantial level of individual co-payments in most medical treatment and services, and many expensive treatments have been excluded from the scope of NHI benefits (T.K. Yoo, 1997; Lee et al., 1999). Inevitably, therefore, the availability of some expensive medical treatments has been highly dependent on the purchasing capability of individuals and households.

Table 6.11. Financial Sources of National Health Expenditure (OECD guidelines)
(Billion won, per cent of GDP, per cent of the gross national health expenditure)

	Gross N.H.E.		% of the gross national health expenditure				
	Bn won	% GDP	Public	Private	Pri. Ins.	Hous.	Other ¹
1985	3,465	4.1	26.6	73.4	5.0	59.9	8.5
1990	8,541	4.8	36.6	63.4	4.8	53.0	5.6
1995	17,619	4.7	36.5	63.5	5.8	51.1	6.6
2000	30,680	5.9	44.4	55.6	8.7	41.3	5.7

1. Expenditure of enterprises and NPOs

Source: Reorganised from Chang et al., 2002: Table V-1 and V-5.

According to the recent estimation of the National Health Expenditure following the OECD guideline (Chang et al, 2002), the private dominance of health expenditure continued until 2000 even though its share decreased significantly (see Table 6.11). Especially, the burden of households paying for health services and goods has been maintained as one of the largest shares of the gross national health expenditure. It was from 2001 that the public health expenditure began to exceed the private one, when the introduction of the ‘Specialization of Dispensary and Medical Practice’ could have caused the rapid increase in the level of medical treatment fees reimbursed by the NHI¹⁴.

¹⁴ The government implemented the separation of dispensary from medical services from 1999/2000. In Korea, people could buy antibiotic drugs from the chemist directly without a doctor’s prescription and

In addition, the growth of private health insurance markets mentioned above is confirmed again by Table 6.11. The share of private insurance schemes increased to 8.7 per cent of the gross national health expenditure.

Table 6.12. International Comparison of National Health Expenditure Structure: 1985 and 1999

(per cent of GDP, per cent of total health expenditure)						
	Gross Health Expenditure (% of GDP)		Share of Public Sector (% of Total H.E.)		Share of Private Sector (% of Total H.E.)	
	1985	1999	1985	1999	1985	1999
Sweden	8.7	7.9 ¹	90.4	83.8 ¹	9.6	16.2 ¹
Norway	6.7	9.3	85.8	75.8	14.2	24.2
France	8.3	9.4	76.9	78.1	23.1	21.9
Germany	9.3	10.3 ¹	77.4	75.8 ¹	22.6	24.2 ¹
Italy	7.0	8.2 ¹	77.2	67.3 ¹	22.8	32.7 ¹
U.K.	5.9	6.9	85.8	83.3	14.2	16.7
U.S.	10.0	12.9	39.9	44.5	60.1	55.5
Japan	6.7	7.4 ¹	70.7	78.5 ¹	29.3	21.5 ¹
Korea	4.3	5.5	26.6	43.1	59.9	56.9

1. 1998

Source: Reorganised from Chang et al., 2002: Appendix Table 5.15-5.17

Compared with other OECD nations, the dominance of the private sector in the health expenditure becomes more evident. As indicated in Table 6.12, whereas the public sector spent roughly more than three-quarters of the gross health expenditure in most of nations with a universal public health system (except Italy), in Korea the share of the private sector, mostly households' burden in the forms of charges and fees, has remained at the highest level with the US. Although Korea has a universal health care system, the financial structure of national health expenditure is very peculiar in terms of its similarity to that of the US in which the public health system only covers a very

doctors (hospitals) could sell drug directly to patients. This system had been criticized as the main reason for the abuse of antibiotics and drugs. The government especially wanted to control the drug costs in the health insurance finance by the specialisation of dispensary and medical practices – permitting patients to buy antibiotic and other professional drugs only with doctor's prescriptions. However, for most private practitioners in the community the drug dispensary was one of the main income sources, so doctors wanted the range of professional drugs widened and the diagnosis fee raised. In summer of 1999, doctors in large hospitals went on a strike and private practitioners refused to see patients for a number of days. After all the government accepted most of doctors' requests, including the increase of the medical treatment and service fees. In conclusion, the specialisation of dispensary and medical practice has led a rapid increase in the public health expenditure from the NHI programmes.

restricted target population. To sum up, considering both the financial structure and the institutional features of the public health system, therefore, it can be asserted that, similar to the US, the market principle has been significantly diluted even in the public health system in Korea.

Rising Private Social Service Markets

As mentioned above, it was in the early 1990s that the market sector began to participate in social service provision. The main areas of market involvements in social services are in running residential and nursing home services for the elderly people and the nursery or day care for pre-school children. In case of the other social services, welfare markets are not fully formed yet. First let us look at the nursery services provided by the market sector.

As seen from Table 6.13, until 1990, since the main target of social services had been to provide residential care for the needy like orphans, the disabled, the elderly without family members who could care for them, the nursery service remained underdeveloped as did other social services for the general population. It was the nursery services that the government targeted first when looking to develop towards universalisation, as women's economic participations has increased. The Nursery Act of 1991 came into legislation, and the share of private providers in the nursery industry has rapidly increased during the 1990s. The delivery structure of nursery services has been pluralized among the public, NPOs (organisations and corporations in the private sector) and market providers (I. Kim, 2003). The market sector in nursery industry is mainly composed by private individual facilities and small home nurseries. Between 1992 and 2000, the shares of nursery places among different sectors experienced a sea change; whilst the relative importance of the public sector dropped fast, the nursery places provided by the market sector have dramatically increased. In 2000, the public sector and the third sector provided 14.6 per cent and 25.4 per cent of nursery places respectively, but the market sector (individuals and home nurseries) provided 15,443 nursery centres (80.1 per cent) and accommodated 405 thousand pre-school children (59 per cent). It can be said that the market sector has dominated overall nursery services since the mid 1990s. What is indicated by this is that, in a similar way to public and

non-profit organisations, they have been subject to the financial support of as well as regulation from the government. Especially, many market providers could start their nursery business relatively easily when the government provided financial loans to private individuals (from the NPI funds) for the construction costs of nursery facilities (MOHW, 2000).

Table 6.13. Number of Nursery Centres and Accommodated Children by Type
No. of Centre (No. of Children in Thousand)

Year	Total	Public	Private				Workshop	Home
			Sub.total	Individual	Org.	Corp.		
1990	1,919 (48)	360 (25)	39 (1.5)	-	-	-	20 (1.5)	1,500 (20.0)
1995	9,085 (294)	1,029 (79)	4,125 (170)	3,175 (93)	22 (1)	928 (77)	87 (2)	3,844 (42)
2000	19,276 (686)	1,295 (100)	11,304 (511)	8,970 (337)	324 (16)	2,010 (158)	204 (8)	6,473 (68)
2002	22,147 (801)	1,330 (103)	12,679 (598)	10,471 (426)	575 (30)	1,633 (142)	199 (9)	7,939 (91)

Sources: Ministry of Health and Welfare, *Statistical Yearbook of Health and Welfare*, various years

Table 6.14. Residential or Nursing Home for the Elderly by Institutional Type

Year	(Nursing) Home Institutions (No., %)				Residents (No., %)			
	Total	F.C.	C.S.	C.H.	Total	F.C.	C.S.	C.H.
1985	67 (100)	67 (100)	-	-	5,059 (100)	5,059 (100)	-	-
1990	89 (100)	71 (79.8)	18 (20.2)	-	6,409 (100)	4,962 (77.4)	1,447 (22.6)	-
1995	146 (100)	84 (57.5)	41 (28.1)	21 (14.4)	8,396 (100)	4,806 (57.2)	2,784 (33.2)	806 (9.6)
2000	250 (100)	93 (37.2)	102 (40.8)	55 (22.0)	13,907 (100)	4,872 (35.0)	6,797 (48.9)	2,238 (16.1)
2002	299 (100)	91 (30.4)	143 (47.8)	65 (21.7)	17,549 (100)	4,522 (25.8)	9,783 (55.7)	3,244 (18.5)

Note: F.C. Free-of-charge institutions; C.S. Cheap sanatorium; C.H. Charged (nursing) home

Sources: Ministry of Health and Welfare, *Statistical Yearbook of Health and Welfare*, various years

Such a growth of the market sector was caused not only by the legislation of 1991, but also by the government's support for private day care facilities. Between 1995 and 1997, most new day care institutions were founded by private providers because the government provided public loans for nursery facilities (Beon, 2001: 6). However, the growth of nursery markets could not have guaranteed to a higher quality of nursery services. Most individual nurseries are small but excluded from the government support for operating costs. In 1999, while the average number of places of public and other types of nurseries were 76.8 and 73.9 respectively, that number of individual nurseries averaged no more than 36.2. It has been known that many individual nurseries have had difficulty in maintaining their facilities and paying for their workers while some luxury private nurseries located in middle and upper class areas have had long waiting lists (*Ibid*).

Table 6.15. Main Indicators of Employment Services: Public vs. Private

	(Number, per cent)					
	No of Agencies			No of Employed ¹ (thousand)		
	Total	Public (%)	Private (%)	Total	Public (%)	Private (%)
1990	1,392 ²	24.6 ²	75.4 ²	567	30.8	69.2
1995	1,610	21.1	78.9	1,460	10.5	89.5
1997	2,046	16.4	83.6	2,290	7.6	92.4
1999	3,058	14.4	85.6	2,227	18.2	81.8
2000	3,831	11.2	88.8	-		

1. Number of the employed, who found jobs through employment service agencies.

2. 1991

Source: Reorganised from Kim and Shin (2003: Table 3-5 and 3-8)

On the other hand, although the Amended Elderly Welfare Act of 1993 and 1997 have allowed the cheap sanatorium and the charged (commercial) residential or nursing home services respectively, the residential services for the elderly still remain residual because of the strong familial tradition. In 2000, only 0.4% of elderly people (65 or more) are accommodated within residential or nursing homes. As seen from Table 6.14, most of residential and nursing home services are provided by private institutions including NPOs, which receive financial supports from as well as being regulated by the government. Since virtually all residential and nursing homes are run by the private

sector, the levied charges or fees can be a crucial indicator to categorise current residential and nursing homes for the elderly. It is possible to divide them into three types; free-of-charge institutions, cheap sanatoriums and charged residential and nursing homes. The places in free-of-charge institutions are limited to public assistance recipients and the government provides public assistance benefits directly to the institutions. Cheap sanatoriums levy charges but only small amounts. They also receive financial support from the government and their residents are subject to means-tested investigation. Hence, only charged institutions do not have entry requirements other than a sufficient purchasing power.

Until recently, the participation of the market sector in residential and nursing home services has remained paltry. Despite a significant increase in their number and places, the charged residential or nursing homes provided only 18.5 per cent of total places in 2002 (see Table 6.14). Although the share of free-of-charge institutions has decreased rapidly, residential services for the elderly have been dominated by cheap sanatoriums, rather than the charged (commercial) residential or nursing homes, since 2000. However, what must be said here is that it is too early to judge the penetration of the market sector in residential and nursing home services. Opening residential and nursing home businesses could take more than a few years, especially when they are large-scale and luxurious ones. In reality, large and luxurious residential or nursing institutions targeting wealthy elderly people are under construction in planning by large companies including some *Chebols*¹⁵. Therefore, residential services for the elderly are likely to be polarised; residential and nursing home services are provided either for very rich or for very poor elderly people.

At last, although the public employment service system has expanded much since the Crisis to deal with the mass unemployment problem (see Table 6.7), Table 6.15 indicates that the private sector, composed mostly of commercial providers, has dominated employment services. In 1995, among 1610 employment service agencies 78.9 per cent were run by the private sector and 89.5 per cent of job seekers (1.46 million) found their positions through these private agencies. The number of private

¹⁵ For example, Samsung Noble County, located in a suburban area of Seoul, opened in April 2001. It provides both residential and nursing home services. The deposit required at entry time is 243-788 million won (approx. £131,000-426,000) for a residential home and 100-200 millions won (approx. £55,000-110,000) for a nursing home place. Besides, the users pay monthly fees, which are 1-2.3 million won (approx. £540-£1,240) for residential homes and 2.1-4.4 millions won (approx. £1,130-2,400) for nursing homes (KEWIA, 2001).

agencies increased even more between 1995 and 2000, when the government lessened or withdrew lots of administrative regulations over the employment service industry through its amendments of the 'Employment Security Law' in 1995 and 1999 (Kim and Shin, 2003: 63-4). In addition, the absolute majority of the private agencies are commercial providers charging fees for their employment or recruitment services – for example, according to D.S. Kim et al. (2002), 92 per cent of private employment service agencies (3968 among 4314 agencies) were commercial agencies in 2001. However, it is also noteworthy that, except some for head-hunting agencies targeting professionals or highly-skilled workers, most of the commercial agencies have specialised in managing daily or temporary workers – 95 per cent of the gross job places provided by the agencies were daily or temporary jobs (Kim and Shin, 2003: 68-9).

6.3. Enterprise Welfare

The year 1987 is one of the most important milestones in the modern history of Korea, and enterprise welfare was no exception in its importance. It is after 1987 that enterprise welfare has been hugely expanded. Between 1987 and 1989 trade union membership augmented dramatically; the density increased by almost 5%. Based on a rapid increase in mobilisation, there were a great number of strikes and numerous workers participated in the labour movement. In the period of the 'Great Struggle of Labour' in 1987, more than 3,700 strikes were reported and roughly 1.3 million workers fiercely resisted the capitalists' exploitation and the repressive state (see table 6.16). The state's control over labour on the behalf of employers and most of the restrictions on unionisation were withdrawn with the enactment of the New Labour Law of 1987 (C.I. Park, 1996). For business, the formal (but superficial) withdrawal of the state's direct intervention meant that businesses had to design an alternative to cope with radical-militant labour unionism. However, on the other hand, owing to the enterprise trade unionism and the state's 'autonomous industrial relation' principle, most agenda between labour and business was discussed only at an individual enterprise level.

Table 6.16. Trade Union Mobilisation, Industrial Dispute, Wage Increase and Labour Cost: 1980~2002

YEAR	Union Member -ship Rate	Industrial Dispute			Wage Increase		Labour Cost		
		Strike & Lockout (N)	Workers Involved (1,000)	Working Day Lost (1,000)	Nominal Wage (%)	Actual Wage (%)	Total Cost (1,000w)	Cash (%)	Non- Cash (%)
1980	14.7	206	49	61	23.4	-4.2	329.8*	79.4*	20.6*
1985	12.4	265	29	64	9.2	6.7	392.5	83.2	16.8
1986	12.3	276	47	72	8.2	5.3	430.5	82.0	18.0
1987	13.8	3,749	1,262	6,947	10.1	6.9	468.6	83.9	16.1
1988	17.8	1,873	293	5,401	15.5	7.8	546.3	83.9	16.1
1989	18.6	1,616	409	6,351	21.1	14.5	659.7	84.1	15.9
1990	17.2	322	134	4,487	18.8	9.4	816.3	81.7	18.3
1991	15.8	234	175	3,271	17.5	7.5	1,011.5	77.2	22.8
1992	14.9	235	105	1,528	15.2	8.4	1,179.5	75.5	24.5
1993	14.1	144	109	1,308	12.2	7.0	1,336.8	74.0	26.0
1994	13.5	121	104	1,484	12.7	6.1	1,501.9	75.4	24.6
1995	12.6	88	50	393	11.2	6.4	1,726.7	75.0	25.0
1996	12.2	85	79	893	11.9	6.7	1,870.5	77.8	22.2
1997	11.2	78	44	445	7.0	2.4	2,082.2	74.1	25.9
1998	11.5	129	146	1,452	-2.5	-9.3	2,337.1	60.5	39.5
1999	11.8	198	92	1,366	12.1	11.1	2,383.8	65.3	24.7
2000	11.6	250	178	1,894	8.0	5.6	2,795.2	62.6	37.4
2001	11.8	234	89	1,083	5.6	1.5	2,676.5	69.1	30.9
2002	11.6	321	94	1,580	11.6	8.7	2,827.6	72.6	27.4

* 1982

Sources: Ministry of Labour, *Statistical Yearbook of Labour*, various years; Korea Labour Institute, *KLI Labour Statistics*, various years

As a result, there has been a continuous and rapid wage increase as well as a significant expansion of enterprise welfare until 1997. Whereas the wage increases were implemented intensively during the period of great conflict between 1987 and 1990, a relatively significant expansion of enterprise welfare can be found after 1990 (Table 6.16 indicates a rapid increase in non-cash labour costs after 1990). On the one hand, the state still delegated the welfare responsibility for workers to enterprises through the mandatory enterprise welfare legislation. Through amendment of the Labour Standard Law, the compulsory coverage of mandatory severance pay was expanded to workplaces with 10 or more employees in 1987 and 5 or more in 1989. The Intra-Company Welfare Fund Law was launched in 1991. This legislation concentrated on the

period when militant trade unionism was at its peak. On the other hand, the existing voluntary enterprise welfare programmes were generalised and reinforced, and new programmes such as intra-company welfare funds and support for housing and private insurance were introduced. Beyond the income-supportive feature of existing programmes, the new ones focused on the asset accumulation of workers.

These changes reflected the fact that, although the state's regulatory power still remained strong, the main actors in the enterprise welfare expansion between 1987 and 1997 changed from the state to labour and business. According to C. Park (1996), trade unionism, the business' strategy for labour control and the size of enterprises have been its major determinants since 1987. Whereas the expansion of enterprise welfare between 1987 and 1989 was largely due to business' fear of strikes and strong trade unions, in the 1990s both the employers and union leaders pursued the expansion of enterprise welfare as a strategic compromise¹⁶, because it offered a good device for both of them; the former could control labour effectively through enterprise welfare programmes and the latter could attract union members by 'showing them fruits'.

The intra-organisational feature of enterprise welfare, as an enterprise's strategy, seems to have been reinforced since the Financial Crisis of 1997. During the economic recession between 1997 and 1999, most enterprises attempted to reduce overall labour costs, along with a reduction in their employee numbers. Many companies became bankrupt and the unemployment rate rose. Trade unions had to tolerate significant decreases in enterprise welfare benefits as well as a decline of real wages. The government forced public enterprises to reduce their enterprise welfare benefits to set an example (Y.M. Kim, 1999: 94-95). Nevertheless, the importance of enterprise welfare as a substitute for state welfare became more prominent during this period. When the state welfare system could not cope with the mass-unemployment problem, the state's previous interventions over mandatory severance pay caused a massive increase in mandatory enterprise welfare expenditure. Moreover, the level of the enterprise welfare benefits had recovered to the level before the financial crisis, as the economic situation improved. Instead, reflecting its the intra-organisational features, the inequality of enterprise welfare, between regular or core workers and irregular or peripheral workers

¹⁶ This feature of enterprise welfare, as a strategic compromise between business and enterprise trade unions, is very similar to the enterprise welfare development of Japan during 1950s and 1960s (Cho, 1996: 296). At the same time, this similarity has been regarded as evidence of either strategic imitation (diffusion) process of Japanese industrial relations or cultural explanation (J.S. Park, 1997; Song, 1994: 387-389).

as well as between large and small workplaces, has been reinforced.

In the remaining part of the section, I present not only the changes to enterprise welfare but also such the issue of inequality, through a labour cost analysis. In the analyses of enterprise welfare, I owe substantial gratitude to the insightful studies of G. Choi (1992), H.K. Song (1995), C. Park (1996), K.J. Hong (1999) and Y.M. Kim (1999). But the main analyses build on my own conceptualisation and analyses of official statistics.

Labour Cost and Enterprise Welfare

If the aggregated trends in enterprise welfare expenditure were focused on in the expenditure study above, the specific structure of the enterprise welfare changes can be grasped by a micro-analysis on the overall labour costs. Particularly in Korea, this is due to the fact that the relationship between enterprise welfare and the cash wage, as well as the voluntary and mandatory enterprise welfare benefits, can be seen as supplementary to each other. In other words, employers have preferred to provide more enterprise welfare benefits instead of rapid wage increases, and they reduced the voluntary benefits when the burden of mandatory benefits was higher. Moreover, a labour costs analysis enables us to examine the inequalities within enterprise welfare between large and small-medium size enterprises by comparing their labour cost structures. Before moving on a labour cost analysis, first the range of enterprise welfare must be defined.

Table 6.17 indicates the categories and contents of the labour cost system in Korea. The left column shows the classification followed by the categories of the ILO's labour cost system, and the right column explains which kinds of programmes are included in each category and have been implemented in Korea. Although there has been no agreed definition of enterprise welfare, recent studies on the enterprise welfare of Korea have suggested that no benefit related to social security or state intervention should be included (Choi, 1992; Song, 1995; Hong, 1996; C. Park, 1996; Y.M. Kim, 2000). Therefore, there is no doubt that the categories of 'non-statutory welfare' and 'benefit in kind' should be included in enterprise welfare. Most scholars also classify 'education and training' as enterprise welfare, but exclude 'severance pay' and 'statutory welfare costs', because the former is based on the state's labour standard

legislation and the latter signifies the social insurance contributions of employers (Ministry of Labour, 1988; Park, 1988; Choi, 1992; Song, 1995).

Table 6.17. Contents of Labour Cost in Korea

Classification of Labour Cost	Contents
1. Remuneration In Cash	Regular Wage, Bonus, etc
2. Non-Cash	
a. Severance or retirement	- Mandatory Severance Pay - Dismissal Pay
b. Statutory Welfare	- Social Insurance Contribution - Contribution of Employment Promotion Fund for the Disabled
c. Non-Statutory Welfare	- Housing (Dormitory, Company House, Housing Allowance, etc) - Medical and Health (Medical Facility, Health Check) - Catering (Inc. Meal Allowance) - Culture, Sport and Entertainment (Library, Gym, Shower, etc) - Saving Support (Private Insurance, Mutual Aid Credit etc) - Aid for Ceremonial Occasions - Education (Education Allowance for Workers' Children) - Child Care (Day Care Centre or Allowance) - Holiday Support - Worker's Stock Ownership - Intra-Company Welfare Fund - Others (Parking, Petrol, Consumer Co-operation etc)
d. Benefit in Kind	- Transport (Company Buses, Transport Ticket) - Goods of enterprise (discount or free of charge) - Presentations (Gifts)
e. Education & Training	- On-the-Job-Training (OJT) - Contracting-Out Training - Evening School
f. Recruitment Cost	- Advertising Cost - Cost for Recruitment Test or Screening
g. Other	- Company News Paper - Working Cloth

Sources: Song (1995:26), Hong (1999:161)

In this research, the categories of 'non-statutory welfare', 'benefit in kind' and 'education and training' are classified into the voluntary enterprise welfare category. However, 'statutory welfare' is excluded from enterprise welfare because it is a form of state welfare. On the other hand, 'severance or retirement pay' is included within mandatory enterprise welfare. This is for two reasons. Firstly, despite its institutional weakness¹⁷, the severance (or retirement) pay of Korea carried out the function of the

¹⁷ 'Severance (or Retirement) Pay' of Korea has performed various functions simultaneously; first, it has been a compensation system for workers' low-wages (deferred wage), second, it has been a substitute for state welfare (social security: unemployment benefit or old-age pension), third, it has been a method of

occupational pensions and unemployment benefits. Secondly, its mandatory feature is not exclusive to Korea; France, Sweden and Australia also have mandatory schemes¹⁸. In addition, in terms of policy implications, there has been a rising necessity for a transformation to enterprise pension schemes (Bang, 1998; Bang et al, 2000; J.H. Kim, 2000). So, I present both voluntary enterprise welfare and 'mandatory severance pay' in separate categories in the labour cost analysis.

Table 6.18. Monthly Labour Cost and Enterprise Welfare Expenditure Per Worker
(Thousand Won, per cent of total labour cost)

Year	Total Labour Cost	Remuneration In Cash	Non Cash Labour Cost	Severance Pay	Statutory Welfare	Voluntary Enterprise Welfare
1985	392.5 (100)	326.6 (83.2)	65.8 (16.8)	24.7 (6.3)	8.2 (2.1)	30.0 (7.6)
1988	546.3 (100)	458.1 (83.9)	88.1 (16.1)	31.2 (5.7)	18.7 (3.4)	35.1 (6.4)
1990	816.3 (100)	667.3 (81.7)	149.0 (18.3)	56.8 (7.0)	24.0 (2.9)	63.2 (7.7)
1992	1,179.5 (100)	891.0 (75.5)	288.5 (24.5)	104.6 (8.9)	50.9 (4.3)	122.3 (10.4)
1994	1,501.9 (100)	1,132.3 (75.4)	369.6 (24.6)	145.6 (9.7)	55.1 (3.7)	157.2 (10.5)
1995	1,726.7 (100)	1,294.9 (75.0)	431.8 (25.0)	203.9 (11.8)	64.7 (3.7)	147.6 (8.5)
1996	1,870.5 (100)	1,456.0 (77.8)	414.5 (22.2)	137.7 (7.4)	81.0 (4.3)	182.7 (9.8)
1997	2,082.2 (100)	1,542.9 (74.1)	539.3 (25.9)	228.6 (11.0)	98.1 (4.7)	198.8 (9.5)
1998	2,337.1 (100)	1,414.6 (60.5)	922.5 (39.5)	618.4 (26.5)	121.7 (5.2)	172.8 (7.4)
1999	2,388.7 (100)	1,557.2 (65.2)	831.4 (34.8)	439.7 (18.4)	168.6 (7.1)	212.7 (8.9)
2000	2,795.2 (100)	1,749.7 (62.6)	1,045.5 (37.4)	635.3 (22.7)	183.1 (6.6)	213.9 (7.7)
2001	2,676.5 (100)	1,849.8 (69.1)	826.7 (30.9)	388.3 (14.5)	210.3 (7.9)	217.5 (8.1)

Source: Restructuring from Ministry of Labour, *Survey on Enterprises' Labour Costs*, various years.

The growth of enterprise welfare in Korea should be explained in context of the rapid increase in overall labour costs between late 1980s and early 1990s. As shown from Table 6.18 (and also see Table 6.16), the favourable condition for business, a low labour cost, began to be depleted from the late-1980s. Although the annual increase rate

labour management (firms' organisational necessity). However, the second and third functions have remained weak; the benefit is available whenever employment terminates, and the Labour Standard Law (state's mandatory regulation) defines the coverage and benefit level (Bang, 1998; Bang et al, 2000).

¹⁸ In spite of its mandatory feature, in 1995 it only covered 29.7% of the working age population, or 50% of employees. After all, 'Severance (or Retirement) Pay' of Korea is mandatory but not universal (Bang, 1998), because its mandatory coverage is limited to firms with 5 or more employees and most of irregular workers have been excluded.

of overall labour costs was maintained at two-digit percentages between 1988 and 2000, except 1996 and 1999, the dominant factors resulting in the labour cost increase were not the same. Whilst wage increases had dominated labour cost augmentation during the period of fierce and militant labour movements (the late 1980's), the expansion of non-cash labour costs was remarkable during the early and late 1990s (See Figure 6.1). The gross sum of the total labour cost, in terms of the nominal value, increased by seven times between 1985 and 2000. What is more surprising is that the non-cash labour cost had multiplied by more than fifteen times during the same period. Aside from these aggregated figures, we may find a few interesting trends when labour costs are disaggregated.

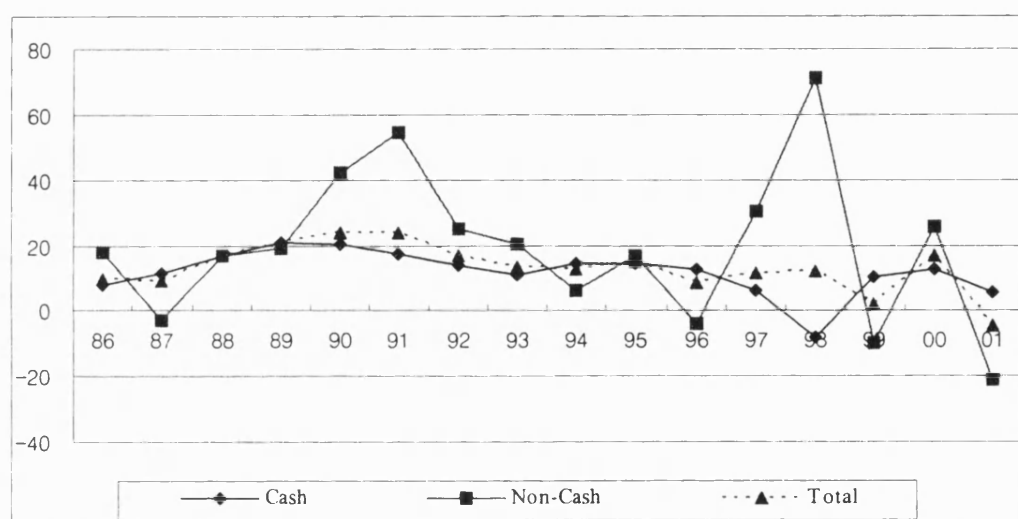


Figure 6.1. Annual Increase Rate of Labour Cost (per cent)

Source: see Table 6.18.

Firstly, the relative importance of the cash wage in the overall labour cost has revealed a decreasing trend in general, even though the increasing rate of cash wage maintained two-digit until 2000 (except in 1997 and 1998). Until 1990 remunerations in cash occupied more than 80 per cent of the total labour cost, but the ratio decreased down to 60.5 per cent in 1998 and was remained below 70 per cent afterwards. This means that the expansion of enterprise welfare benefits has been more dramatic than that of the cash benefits. The non-cash labour costs became more important during the period when industrial relation based on the institutionalisation of enterprise unionism

had been relatively stable (between 1990 and 1992) and when the Korean economy faced a mass unemployment problem (between 1997 and 1999). This is enough to draw one's attention, because enterprise welfare became a core part of the bargaining strategy of both business and labour groups since the early 1990s, whilst mandatory severance pay also played an important role during the crisis.

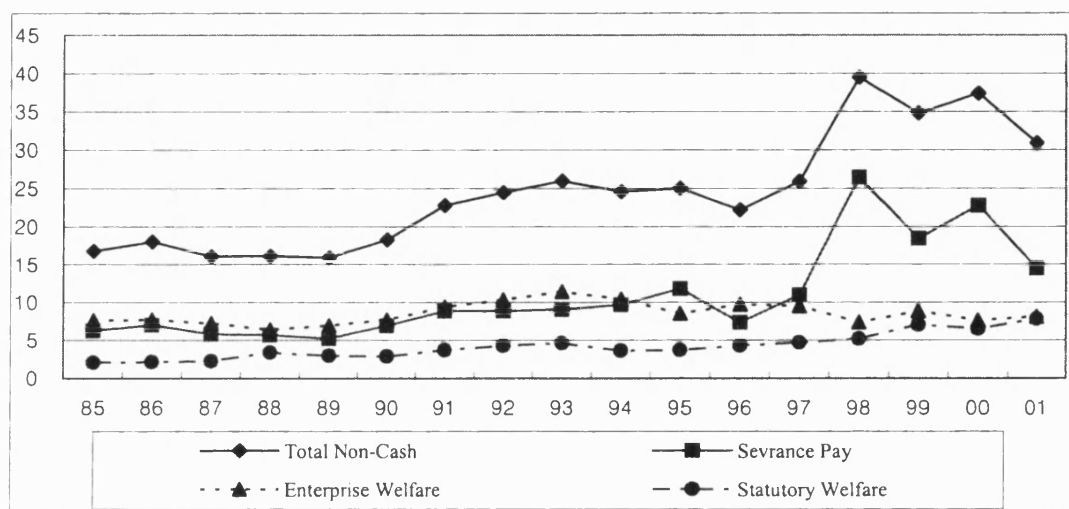


Figure 6.2. Non Cash Labour Cost (per cent of total labour cost)

Source: see Table 6.18.

Secondly, the scale of voluntary enterprise welfare expenditure overwhelms that of statutory welfare (see Figure 6.2), but the difference between them also has decreased significantly since 1998. Both the absolute amount and the relative proportion of statutory welfare had been far below the proportion of voluntary enterprise welfare even though there had been a continuous increase in employers' social insurance contributions due to the expansion of social security system¹⁹ until 1997. However, as seen from Figure 6.2, the relative proportion of the statutory welfare cost almost caught that of voluntary enterprise welfare between 1998 and 2001, as the Kim Dae Jung government expanded social insurance institutions. Instead, the burden of mandatory severance pay greatly increased during the same period when mass unemployment swept through the whole country and the adjustment to the mandatory severance pay

¹⁹ There was the implementation of National Pension Insurance (NPI, 1988), the universalisation of National Health Insurance (NHI, 1989) and the introduction of Employment Insurance Schemes (EIS, 1995).

was introduced in 2000. These trends support the position that enterprise welfare has been more than a kind of fringe benefit; rather, the institutional legacy where enterprise welfare has replaced state welfare has been maintained and even reinforced. In reality, it can be asserted that, in workers' lives, enterprise welfare has been more important than the 'residual' state welfare.

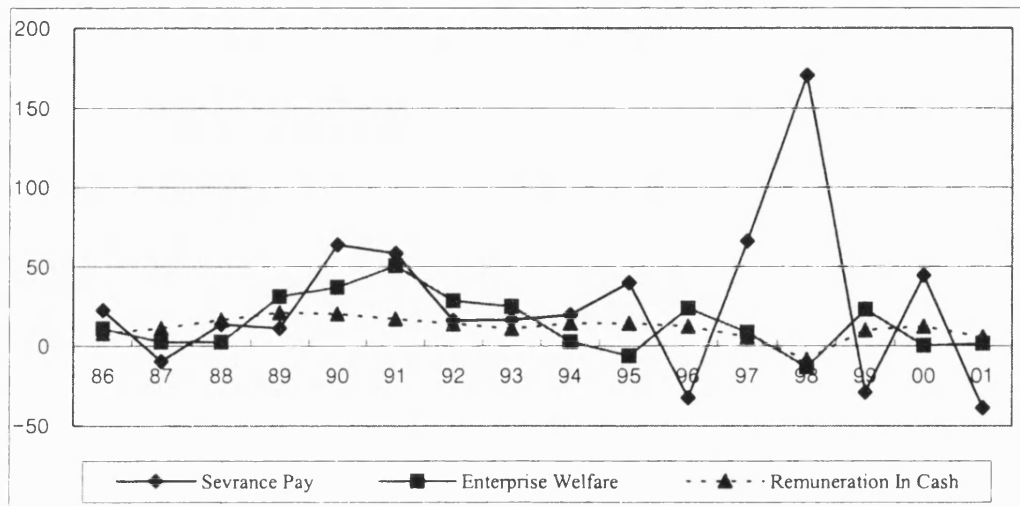


Figure 6.3. Annual Increase Rate of Remuneration in Cash, Severance Pay and the Voluntary Enterprise Welfare (per cent)

Source: see Table 6.18.

Thirdly, although the increase in the rate of cash wages remained relatively stable, the rates of both mandatory severance pay and voluntary enterprise welfare have fluctuated severely (See Figure 6.3). Whilst the fluctuations in severance pay reflect changes in the economic situation, the rapid change of voluntary enterprise welfare expenditure indicates that voluntary enterprise welfare can be manipulated by the enterprise's strategic necessity, i.e. the inner logic of the business. Its relative flexibility implies that a reduction in voluntary enterprise welfare is always possible as long as enterprises consider the internal and external business conditions. This expectation seems to have been realised after the financial crisis of 1997. It is relates to the next argument.

Lastly, after the crisis, the reduction in the scale of enterprise welfare expenditure was far more than that of the cash wage in 1998. Although it was a

temporary phenomenon and in 1999 the voluntary enterprise welfare cost had recovered to above the level in 1997, and the overall level remained static between 1999 and 2000. However, at the same time, it is an important trend to recognise that statutory welfare costs rose significantly as the public social security system began to expand. Two possible explanations of this arise. The first is that the business had to reduce (or maintained a *status quo* after 1999) the voluntary enterprise welfare cost under the dual pressure of increasing statutory welfare costs and the multiplying burden of severance pay caused by cutting back their employees. The other is that, under the external pressure of globalisation (global capital, IMF etc), the structural power of capital has been reinforced, and business could force the labour force to agree to a reduction of enterprise welfare (Y.M. Kim, 2000). Despite the analytical partition, both explanations seem to offer each side of the coin. Furthermore, it must be mentioned that the reduction of the voluntary enterprise welfare was the main element of the compromise between employers and trade unions, during the economic recession which was followed by the financial crisis (J.S. Kim, 1999).

Inequality of Enterprise Welfare

Both in principle and empirically, as most studies on enterprise welfare have indicated, one of the most important impacts of enterprise welfare is the strengthening inequality between workers (Cho, 1996; Choi, 1992; Esping-Andersen, 1990, 1996b; Hong, 1996, 1999; C.J. Lee, 1997; C. Park, 1996; Shalev, 1996; Song, 1994, 1995). The expansion of enterprise welfare can cause two types of inequality amongst workers; inequality between enterprises on the one hand, and within enterprises on the other. The former indicates that large firms have a tendency to pay more for enterprise welfare than small-medium firms do. The latter implies the possible inequality caused by the internal labour market within a firm. Since there is no available data whereby one can measure the differences in the enterprise welfare benefits between workers, most analysis focuses on the discrimination between large and small-medium enterprise. Instead, we can guess that the inequality problem is caused indirectly by the internal labour market within a firm through an analysis of labour market flexibility.

Table 6.19. Inequality between Large and Medium-Small Enterprises: Cash Wage, Severance Pay and Enterprise Welfare

(Thousand Won, per cent)

Year	Remuneration In Cash			Severance Pay			Voluntary Enterprise Welfare		
	Large (a) ¹	M&S (b) ²	a/b (%) ³	Large (a) ¹	M&S (b) ²	a/b (%) ³	Large (a) ¹	M&S (b) ²	a/b (%) ³
1985	328.0	315.3	104.0	50.5	43.1	117.0	30.7	22.6	135.7
1988	465.1	408.2	113.9	30.4	36.9	82.3	35.9	29.1	123.3
1990	679.2	537.9	126.3	56.5	59.9	94.3	65.0	42.7	152.2
1992	906.5	720.5	125.8	104.8	103.3	101.4	125.1	92.8	134.8
1994	1,200.4	863.2	139.1	146.5	140.7	104.1	168.3	93.1	180.8
1995	1,340.7	991.3	135.2	217.0	116.7	185.9	157.8	98.2	160.7
1996	1,513.4	1,072.7	141.1	140.8	116.5	120.9	194.2	105.1	184.8
1997	1,581.4	1,174.9	134.6	234.7	169.9	138.1	208.7	105.6	197.6
1998	1,453.3	1,072.0	135.6	658.8	260.0	253.4	181.7	93.3	194.7
1999	1,608.6	1,156.1	139.1	461.6	268.7	171.8	225.0	116.7	192.8
2000	1,815.1	1,219.5	148.8	690.7	186.0	371.3	225.1	123.4	182.4
2001	1,919.4	1,335.8	143.7	410.0	227.5	180.7	230.6	120.1	192.0

1. Large Size Enterprise (300 employees or more)

2. Small and Medium Size Enterprise (30-299 employees)

3. Small and Medium Size Enterprise=100.

Source: see Table 6.18.

First of all, in terms of the cash wage, severance pay and voluntary enterprise welfare, whatever is considered to be the standard, the inequality between large and small-medium enterprises has drastically widened (see Table 6.19 and Figure 6.4). In 1985 there was not a significant discrepancy in the cash wage but there already existed a large gap in voluntary enterprise welfare. Until 1988, the gap of enterprise welfare decreased slightly whereas the cash wage discrimination began to rise. The real inequality began from 1990, just after (and during) the peak time of militant labour unionism in large manufacturing workplaces. What draws one's attention is that voluntary enterprise welfare dominates the overall inequality, even though the inequality of mandatory severance pay shoots up enormously in 1998 and 2000. On the contrary, the gap in the cash wage remained relatively stagnant between 1994 and 1999. What was more interesting is that the gap in voluntary enterprise welfare was remarkable during the period of the stagnation of the cash wage gap (See Figure 6.4). In the case of severance pay, two explanations can be extracted. First, the low severance

pay cost between 1988 and 1992 implies a relatively stable employment condition in large firms. It implies that there have been significant inequalities in employment stability (workers' tenure)²⁰. Second, the benefits of early retirement or mandatory severance pay during the economic recession have favoured the workers within large firms. Compared with the mandatory regulations set by the Labour Standard Law, most of large firms have applied more favourable compensation schemes to their workers through accumulated retirement pay schemes according to workers' years of tenure (Bang, 1998). Especially, since many workers in large firms applied for an adjustment of mandatory severance pay, the severance pay burden on them leapt up again in 2000.

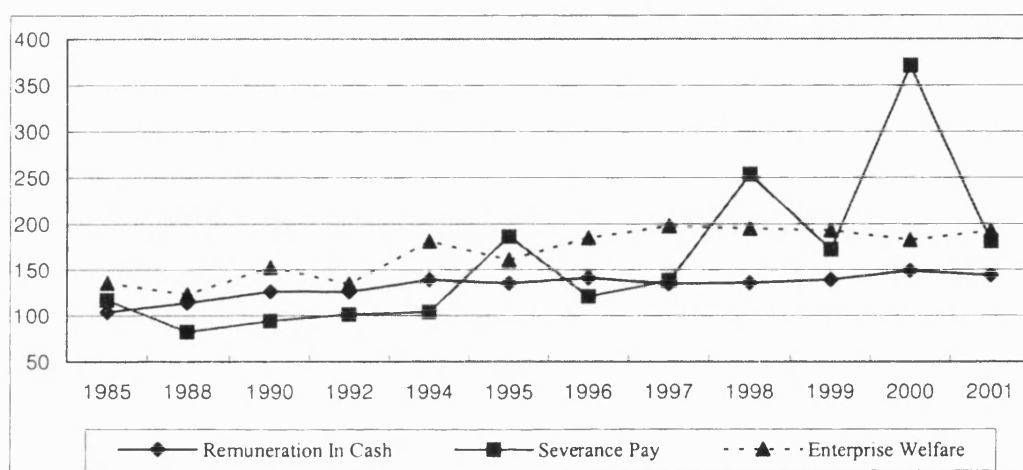


Figure 6.4. Inequality between Large and Medium-Small Enterprises: Cash Wage, Severance Pay and Enterprise Welfare (Medium-Small Enterprises=100)

Source: see Table 6.18.

On the other hand, labour market flexibility has been reinforced and the ratio of regular employment in total paid employed has decreased significantly since the crisis (see Table 4.4). It can be evaluated from the evidence that the inequality between regular and irregular workers has been nurtured (Jung et al, 2004; Y.S. Kim 2001, 2002). Whereas many firms have cut their regular employment through massive lay-offs and the encouragement of early retirement with high compensation, they have utilised irregular employments to reduce a significant part of their labour costs – statutory social insurance contributions and other enterprise welfare benefits. As indicated in Table 6.20,

²⁰ This may be the mixed outcome of strong trade unions, labour shortages and the higher profitability of large firms (mainly *Chebols*).

most irregular workers are excluded from the actual coverage of the mandatory severance pay, bonuses and paid holidays, and also from workplace social insurance programmes (see also Table 6.4). As a result, for irregular workers who occupy more than the half of the paid labour force, not only do the social insurance programmes remains nominal, but enterprise welfare has not played a role as a substitute for insufficient state welfare.

Table 6.20. Actual Coverage Rate of Fringe Benefits and Statutory Enterprise Welfare: Regular vs. Irregular Workers

	(per cent)			
	Severance pay ¹	Bonus ¹	Paid holidays ²	Maternity leave ²
Total Employed	48.3	48.0	40.5	16.8
Regular Workers	93.2	92.5	75.4	32.9
Irregular Workers	13.8	13.9	15.6	5.3

1. In 2002

2. In 2000

Source: Jung et al, 2004: 396.

6.4. The Third Sector

One of the most important features of the Korean social welfare system has been its underdeveloped social services. Until the 1980s, the government restricted the scope of its interventions in social services to only acting when the caring function of family fails, and the main social services were residential or caring services for the needy who did not have a family member who could care for them. Moreover, the government has actively utilised third sector organisations as its agents for the delivery of social services, rather than developed its own social service delivery system. Since the main function of third sector organisations has been to provide the statutory social services that were defined as the government's legal responsibility, they are highly dependent on public payments, and inevitably utilising public funding has been accompanied by pervasive

supervision and guidance from the state. As a result, even though the third sector has taken a great, if not absolute, role in the overall provision of social services, the advantages of the third sector's social provision – such as widened choice, participation, responsiveness, diverse social values, innovation and so on – have not developed well under these circumstances. This is particularly true for social welfare corporations which have been the main suppliers of institutional (residential) caring services. Also, most of other social welfare organisations that have received government grants cannot be free from those restrictions. All of these features raise question about the independence of the third sector.

However, there have been significant changes in the social service provisions of the third sector since the late 1980s. First, a set of legislation regarding social services²¹, enacted during the early 1980s, were implemented. Despite *de-facto* selectivism, the legislation has been linked to the diversification of social services. Second, these diversified social services have been possible on the basis of the 'deinstitutionalisation' policy of the government (Baek, 1997). From institutional caring, the initiatives of the social services have been transformed into community welfare facilities such as community social welfare centres, home caring service centres and nursery services. Third, through the revision of the 'Social Welfare Service Act' in 1997, not only social welfare corporations, but also various organisations, foundations, and even enterprises and individuals can enter the 'social service industry'. For example, not only have for-profit corporations been participating in nursery and elderly care industries, but CSOs have also provided new social services since the Financial Crisis. Finally, in order to mobilise private resources, the government has actively encouraged volunteer activities as well as private charity donations. Across the country, local governments have established quasi-public volunteering centres (MOHW, 2000: 127-128) and a united fund-raising organisation (Korean United Way) was founded in 1999 (Kang, 2000: 345). Despite such developments, the basic tendency that the government utilises the third sector in social service delivery and makes them subject to strong regulation has not changed.

Rather, it was the CSOs' social welfare movements that have revealed the potential of the third sector in Korea. According to Kramer (1981: 9), the voice

²¹ For examples, 'Elderly Welfare Act [1981]', revision of 'Child Welfare Act [1984]', 'Disabled Welfare Act [1981]' and 'Infant Education Encouragement Act [1982]'.

mechanism of the third sector, which pressures the government to establish social welfare programmes and to improve their provision and eligibility criteria, forms one of the most important functions. The increasing advocacy role of the third sector has been based on the growing civil society since 1987. At the earlier stage, Civil Society Organisations revealed their radical objectives and put emphasis on the struggle against the authoritarian state. But the prevailing social movement soon began to be transformed into a civil society movement; a movement from radical, revolutionary social movements to a focus on issue politics²². The newly established CSOs have taken a moderate stance using legal activities, which distinguish them from the illegal and violent ways of the anti-governmental organisations (P. Yoo, 1998: 83). For those organisations, welfare issues have been one of the most important issues to deal with, and they have actively accomplished an advocacy role *vis-à-vis* the government since the launch of the Kim Young Sam government in 1993. Their activities have covered various welfare issues including the expansion of social insurance coverage, the protest for social rights, the establishment of new social services and so on. For example, women's organisations protested the enactment of laws to prevent domestic and sexual violence during the 1990s (Kim, Yoon and Park, 1999). The PSPD launched the 'national minimum' movement in 1994 and dominated the public assistance reform processes under the Kim Dae Jung government (Ahn, 2000; J.Y. Moon, 2001). Especially when the financial crisis created unprecedented mass unemployment and poverty problems, many CSOs formed a coalition to campaign for the expansion of state welfare programmes and they actively participated in all the major welfare reform processes including the unification of the National Health Insurance and pension reforms. As shall be discussed in the following chapter, the CSOs have had an abundant manpower pool including professional scholars and lawyers, so they could participate

²² According to Cho, this trend was the result of and reflected a change in the internal and external circumstances (D.Y. Cho, 1999: 133-143). First, the radicalisation of social movements, esp. student movement, during the late 1980s was too far from people's emotional generosity. Second, the collapse of Communism caused confusion and disturbance within radical social movements. Some activists gave up their faith and flew into institutional politics, and others began to realise the necessity of 'a new form'. Third, the fruits of democratisation, in terms of the procedural dimension, have provided favourable conditions for various social movements. The requirements for establishing organisations have been more moderate. And the state's power over civil society has weakened. Fourth, social problems became more serious, and new issues such as distributional (Economic) justice, inequality, environment and domestic violence have arisen. In order to cope with these social problems caused by the compressive economic growth, incremental reform based on civil movements, rather than revolutionary, have been justified. Fifth, the material conditions of civil movement have matured. The advent and growth of the middle class, or citizen, who can afford to pay membership fees and their attention to social problems.

and influence nearly all the social policy processes from the formation of the policy agenda to its actual implementations. Moreover, contrary to the past business-state policy coalition, they sometimes constructed a 'critical' policy coalition with pro-welfare government Ministries when reformative welfare reform proposals were faced by severe resistance from the business-economic bureaucracy coalition. Since these processes are much more related to welfare politics, rather than direct social welfare provision, and detailed discussions of the advocacy role of CSOs will continue in the following chapter, the analytical focus of the section concentrates on social service provisions and the structural features (mainly employment and finance structure) of the third sector. Again, I will substantially build on the existing works in the analysis of the third sector (e.g., Kim, Yoon and Park, 1999; Beon, 1996; Baek, 1997; S.Y. Moon, 2000, M.S. Kim, 2002, and especially T.K. Park, 2000, in the finance and employment structure), but a significant part of the analysis based on official statistics is added within this section.

Social Service Delivery Structure

Since the government has endowed its responsibility for providing social services to third sector organisations, the role of the third sector in social welfare provisions should be analysed in the context of the overall social service system. In Korea, social welfare organisations providing social services can be divided into two types; i.e., social welfare residential institutions (providing residential and caring services for the needy) and users' welfare facilities/centres. The former type looks to accommodate those who cannot live in the community and are defined as the 'statutory' needy such as the elderly poor, the disabled and needy children (Moon, 2000: 57). Social welfare institutions have formed a crucial part of the social service system of Korea, and most of them have been run by social welfare corporations. In 1999, more than 99 per cent of institutions and residents were included within the private sector (see Table 6.21), and almost all the private institutions were run by third sector organisations. Only some parts of elderly welfare institutions (approximately 22 per cent) were included in the 'charged nursing home' category in 2000 (see Table 6.14). On the other hand, the latter type can be understood as facilities to meet the social service needs of the community. Nursery

facilities and community social welfare service centres occupy the absolute majority of social service centres or facilities, and all of them increased during the 1990's (see Table 6.13 and 6.22). Whilst the providers of nursery services are relatively pluralized despite the dominance of market providers, most community social welfare service centres are being operated by third sector organisations.

Table 6.21. Outlook of Social Welfare Institutions: Public vs. Private (1999)
(Number, per cent)

Category	Total		Public		Private (NPOs)	
	Number	Residents	Number	Residents	Number	Residents
Children	271 (100)	17,840 (100)			271 (100)	17,840 (100)
Elderly	213 (100)	12,351 (100)			213 (100)	12,351 (100)
Women	98 (100)	3,780 (100)	6 (6.1)	77 (2.0)	92 (93.9)	3,703 (98.0)
Disabled	199 (100)	17,308 (100)			199 (100)	17,308 (100)
Chronic Disease	61 (100)	17,024 (100)			61 (100)	17,024 (100)
Vagrants	44 (100)	13,463 (100)	2 (4.5)	351 (2.6)	42 (95.5)	13,112 (97.4)
Total	886 (100)	81,766 (100)	8 (0.9)	428 (0.5)	878 (99.1)	81,766 (99.5)

Source: Ministry of Health and Welfare, *White Paper on Health and Welfare 2000*, p. 644.

Although these 'formal' social welfare institutions have dominated social service provisions, it is evident that they are not the only type of supplier. It has been known that there have been a significant number of unlicensed residential institutions mostly run by individuals or religious organisations with philanthropic purposes. In 1995, for example, it was reported that there were 293 unlicensed social service providers across the country and approx. 73% of them were founded between 1986 and 1995 (Beon, 1996). As most of the unlicensed institutions have been excluded from the financial support and regulation of the government, the government has encouraged them to turn into formal institutions via the amendment of the 'Social Welfare Service Act' of 1997.

The law included a set of de-regulations, and the existing sanction system has been transformed into a registration system for the establishment and operation of social welfare institutions. Nonetheless, the number of unlicensed institutions has increased rapidly; whereas the number of formal social welfare residential institutions increased to 925 in 2001, from 778 in 1995, 637 unlicensed institutions were reported in 2001, compared with 283 in 1996 (M.S. Kim, 2002: 51). Such an increase, M.S. Kim asserts (2002: 44-5), has been due to an increasing number of needy people for whom it has not been possible to enter formal residential institutions. Similar to public assistance programmes, it has been very difficult for those who have family members to gain admission to formal residential institutions because, as agents of the government, they have to provide statutory social services for the 'needy' as stipulated by the government.

Table 6.22. Community Social Welfare Service Centres by Type

Year	Total	Social Welfare Incorporation	Non-profit Corporation	Educational Corporation	Local Government
1985	29	25	1	1	2
1990	88	76	4	3	5
1995	297	221	58	10	8
2000	345	251	62	18	15
2002	360	260	64	17	19

Source: Ministry of Health and Welfare, *Statistical Yearbook of Health and Welfare*, 2002: Table 5-1-4.

On the other hand, beyond their voice mechanism, many CSOs have participated directly in the field of social services, and the trend whereby the third sector replaces the role of the government in social service delivery has been reinforced, especially since the financial crisis (Moon, 2000: 59-61). CSOs have been in charge of newly rising needs such as homelessness, domestic violence and sexual harassment, unemployment, adolescents leaving home and adolescent sexual problems. For example, legislation on the domestic violence and sexual harassment (1994 and 1997 respectively) were finally realised after women's organisations had protested for them as the result of human rights movements for women. Most services relating to the sexual and physical violence

such as the emergency call service, counselling, legal information and temporary shelter services have been provided by these women's organisations with the financial support of the government (Kim, Yoon and Park, 1999; Park and Hwang, 1999). Most of all, the emergency services for the homeless and unemployment services, which began to emerge after the financial crisis, have been dominated by the third sector. Catering and shelter services for the homeless were initiated and provided by religious organisations, CSOs and community social welfare centres (S.M. Hong, 2002). When the government sanctioned the release of enormous resources to deal with the mass unemployment problem in 1998 and 1999, many CSOs (especially women and consumer related organisations) participated in the unemployment programmes of the government and began to provide the various social services directly (Moon, 2000: 60). The most outstanding feature of these social services is that the pioneering or experimental feature of the third sector has been revealed and, different from traditional social welfare institutions, the issue of independence of the third sector organisations has hardly been raised despite their significant aid from the government. This is due to the fact that the organisations initiated their programmes first and the government admitted their necessity and supported them later, rather than the government first setting up basic guidelines to run the services.

To sum up, the social service delivery structure of the third sector, as Moon (2000: 62) indicates, can be summarised as follows; first, social welfare institutions, mainly run by social welfare corporations, provide statutory social services on behalf of the government [agents of the government]; second, unlicensed organisations play a supplementary role by providing social services to those who are not covered by statutory social services [supplemental to the government]; third, along with some leading religious organisations, CSOs have initiated and dominated experimental programmes in order to cope with the newly emerging social problems [pioneering as well as supplementary role]. Although there have been expansions of some social services for the general population since the early 1990s, the overall dominance of the third sector in social service delivery and the strong interventions of the government on the private social service providers has not been changed much.

Finance and Employment Structure

In spite of the recent growth of the third sector, it has been reported that the role of the third sector in social welfare and health has been very weak in overall social welfare provision, as the expenditure study above has shown. More fundamentally, it has been reported that the size of the third sector itself is very small when compared with the size of the third sector in other countries. According to the comparative study of Salamon et al. (1999), in 1995, the average of third sector expenditure among 22 countries was 4.6 per cent of GDP (5.7 per cent including volunteers), the average employment size occupied 4.8 per cent of the total non-agricultural or 10 per cent of service employment (6.9 and 13.9 per cent respectively including volunteers). Conversely, in Korea, the estimated gross sum of the operating expenditure corresponded to 2.9 per cent of GDP (3.9 per cent if volunteers were included), and the size of third sector employment did not exceed 2.9 per cent of the total non-agricultural or 8.5 per cent of service employment (4.3 per cent and 12.8 per cent respectively including volunteers; see Table 6.23 and 6.31 for details)²³.

First of all, it has been reported that, in 1997, there were 73,584 third sector organisations with 28 million members in Korea²⁴ (T.K. Park, 2000). According to the estimations of the third sector using the ICNPO²⁵'s standard (*Ibid*), the gross amount of third sector expenditure was 13,905 billion Korean Won (approximately US\$ 11 billions), and it exceeds KW 18,819 billion (approximately US\$ 14.5 billions) when the value of volunteers was included (see Table 6.23). It corresponded to 3.07 per cent, or 4.16 per cent when including volunteering, of the GDP in 1997. When it is analysed categorically, the proportion of the education area was overwhelmingly high (70.6 per cent of the total expenditure) in terms of the operating expenditure, but it reduced by just over half when the value of volunteering was included. The share of social welfare organisations was very low – 2.1 per cent of the total operating expenditure of the third

²³ Here, many Korean scholars evaluate that Korea has revealed those features which Salamon and Anheier (1996) call 'statist' and, in terms of the government-third sector relationship, the structure that Gibron et al. (1992) categorise as the 'collective-vendor' model (H.K.Lee, 2000; Moon, 2000; T.K.Park, 2000).

²⁴ In terms of the number of organisations, 70% were religious organisations, 12.9% civil & political organisations, 7% social welfare, 4.8% professional organisations and 1.3% were entertainment and culture. The others were below 1%. In terms of membership, the situation was not so different; 62.3% were taken by religious sector, 25.1% civil & political organisations, 8.7% professional groups.

²⁵ International Comparative Nonprofit Sector Project, Johns Hopkins University, U.S.A.

sector (but it reached almost 8 per cent including the value of volunteering).

In terms of the employment structure, the third sector employed not only approximately 536,000 of the paid labour force, but also had volunteers corresponding to more than 274,000 full-time paid staff (see Table 6.24). This size corresponded to 2.9 per cent of the total non-agriculture employment or 8.5 per cent of the service employment²⁶ (4.3 and 12.8 per cent respectively including volunteering activities). Whilst the absolute majority of paid workers were employed within the education (33.5 per cent), religion (26.8 per cent) and health (21.8 per cent) sectors, social welfare organisations employed only 7.5 per cent of the total of third sector employment. However, in terms of the proportion of volunteering activities, social welfare (23.8 per cent) and civil organisations (21.4 per cent) were both dominant fields as were religious groups (35.4 per cent). When volunteers are included, the volume of the employment of social welfare organisations occupied 1.7 per cent of the total service employment.

Table 6.23. Estimated Expenditure of NPO sector (1997): ICNPO standard
(Billion won, Per cent)

ICNPO Category	(A) Total expenditure	(B) Operating Expenditure	B/A (%)	(C) Value of volunteers	B+C	C/B (%)
Entertainment & Culture	378.9 (2.7)	358.1 (2.7)	94.5	172.2 (3.5)	530.3 (2.9)	48.1
Education & Research	9,799.9 (70.5)	9,281.4 (70.6)	94.7	53.2 (1.1)	9,334.6 (51.7)	0.6
Health	1,065.8 (70.5)	1,028.1 (7.8)	96.5	711.5 (14.5)	1,739.6 (9.6)	69.2
Social Welfare	291.4 (2.1)	276.3 (2.1)	94.8	1,154.8 (23.5)	1,431.1 (7.9)	418.0
Civil & Political Organisations	557.7 (4.0)	527.1 (4.0)	94.5	1,093.8 (22.3)	1,620.9 (9.0)	207.5
Religion	726.9 (5.2)	687.1 (5.2)	94.5	1,723.0 (35.0)	2,410.1 (13.3)	250.8
Professional (inc. trade union)	1,084.8 (7.8)	985.0 (7.5)	90.8	5.2 (0.1)	990.2 (5.5)	0.5
Total	13,905.4 (100.0)	13,143.0 (100.0)	94.5	4,913.7 (100.0)	18,056.7 (100.0)	37.4

Source: Reorganised from Park, 2000: Table. 3 & 4

²⁶ Followed by ICNPO methods, wholesale, retail, restaurant and hotel employment were excluded in the total service industry (Park, 2000).

Table 6.24. The Size of Employment and Volunteers (1997): ICNPO Standard
(Number, per cent)

ICNPO Category	Paid Employment		Volunteers	
	Number (% of total)	% of Service Employment	Number (% of total)	% of Service Employment
Entertainment & Culture	22,121 (4.1)	0.3	9,741 (3.9)	0.2
Education & Research	179,566 (33.5)	2.8	3,004 (22.5)	0.0
Health	116,741 (21.8)	1.8	40,171 (19.4)	0.6
Social Welfare	40,403 (7.5)	0.6	65,210 (12.0)	1.0
Civil & Political Organisations	15,756 (2.9)	0.2	58,776 (9.2)	0.9
Religion	143,569 (26.8)	2.3	97,292 (29.7)	1.5
Professional (inc. trade unions)	17,971 (3.4)	0.3	300 (2.3)	0.0
Total	536,127 (100.0)	8.5	274,494 (100.0)	4.3

Source: Reorganised from Park, 2000: Table. 5.

Table 6.25. Revenue Structure of the Third Sector (1997): ICNPO Standard
(Billion Won, per cent)

ICNPO Category	Public Payment		Private Giving		Private Fee and Charge	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
Entertainment & Culture	97.0	25.4	32.2	8.5	249.7	66.1
Education & Research	1,479.8	15.1	480.2	4.9	7,839.9	80.0
Health	416.7	39.1	-	-	649.1	60.9
Social Welfare	197.6	67.9	47.9	16.5	45.9	15.7
Civil & Political Organisations	93.3	16.6	93.1	16.7	372.3	66.7
Religion	-	-	-	-	726.9	100.0
Professional (inc. trade unions)	-	-	-	-	1,084.7	100.0
Total	2,283.4	17.3	653.4	5.0	10,241.6	77.7

Source: Park, 2000: Table. 6

Table 6.26. Revenue Structure of Unlicensed Residential Service Institutions
(per cent of total revenue)

	Self Revenue	Government Aid	Private Donation		Other
			Foreign Aid	Private Aid	
Y.C. Beon (1995)	32.9	7.8	13.2	25.6	20.5
M.S. Kim (2002)	19.8	10.6	-	26.7	30.4 ¹

1. Including public assistance benefits to inmates of institutions (19.7% of total).

Source: Y.C. Beon, 1996: 7; M.S. Kim, 2002

On the other hand, in the case of finance structure, although the revenue of the third sector has been highly dependent on fees and its membership in general, very diverse structural features can be found from one category to another (see Table 6.25). For health and medical organisations, for example, fees and charges for health services were the largest financial income source. Whilst the most outstanding feature in the revenue structure of social welfare organisations has been a higher dependency on government aid. Almost 70 per cent of their income came from the public sector in 1997. This has been largely due to the particular relationship they have with the government as mentioned above; i.e., the government legally requests that the statutory needy be protected and accommodated in appropriate facilities and, in turn, the government pays most of costs of caring to social welfare corporations (Moon, 2000: 70-73). In the case of unlicensed social service organisations, however, the importance of government aid has remained residual whilst private donations can be taken as one of their most significant sources of revenue (see Table 6.26). Moreover, the importance of private financial sources has increased greatly in social service provisions. For example, 88 major enterprise foundations that were enrolled in the Korea Employers' Federation (KEF) spent KW 124.4 billion²⁷ on social welfare, corresponding to 14.8 per cent of the government's social service spending (C.S. Hwang, 1998: 159). Additionally, financial aid from the SWCFRC (the Korean United Way), launched in 1998, provided another source of private giving²⁸.

²⁷ This amount occupied 44% of enterprise foundations' total expenditure.

²⁸ It collected 16.7 billion in the year of 1998-1999 and 29.5 billion in 1999-2000 (Kang, 2000: 355).

6.5. Family and Household Provisions

Although the transformation of demographic and household structures has reduced the capability of the family in informal welfare provision, there is much evidence that the family and household provisions have remained as the most important welfare source for ordinary people. Under the condition of an immature public transfer system, private income transfers among family members (different households) have not only been the largest income source for the elderly, but have also played a significant role when ordinary people face hard situations. Most of the elderly still either live with their adult children in the same household or are cared for by the children who reside in the same region or neighbourhood area. Most of caring burden has been left as the share of the family, or, more correctly, women. In this section, I attempt to indicate how important family and household welfare provision has remained to Korea. To do so, I synthesise various sources of materials and the data of other scholars, in an analysis of the effects of private income transfers (B.D. Son, 1998, 1999; J.K. Choi, 2000; Seok and Kim, 2000), informal caring related to the elderly (Jung et al., 1998). I also refer to other primary official data and statistics, especially in the analysis of the income source of different income groups and the gender issue of informal caring based on time survey data.

Private Income Transfers

It is private income transfers that have been defined as one of the most unique features of family and household provision in Korea. To understand the importance of private income transfers, it is necessary to analyse the overall income structure of households, based on a nation-wide income survey²⁹. As seen from Table 6.27 below, the share of transfer incomes (5.8 per cent) as a regular income was as important as that of property incomes in 2000. Similar to the transfer income structure shown in Table 6.8, the

²⁹ The National Statistical Office has implemented such a kind of income and expenditure survey at a five-year intervals since 1991. But it was in the most recent survey held in 2000 that the income data of the self-employed began to be published. Until then, same as the Urban Household Survey of NSO, only the expenditure data of the self-employed were reported whereas both the income and expenditure data of the worker's households are now published.

importance of the private transfers overwhelmed that of public transfers. Especially, for the lowest quintile group, the private transfers (subsidy from other household) were one of the largest income sources (14.8 per cent of regular income) whereas the public transfer incomes took up only 5 per cent of regular income. So it can be said that the private transfers are of immense importance for lower-income households.

The importance of private income transfers and their dominance of the overall transfer incomes has been reported within many empirical studies (Kim and Son 1995; B.D. Son, 1998, 1999; J.K. Choi, 2000). As a matter of fact, whilst state welfare benefits have hardly contributed to poverty reduction in terms of the poverty rate (head-count) and poverty gap, private transfers have played a relatively important role. Son (1999) reports that the poverty reduction rate among households receiving private income transfers was 20.8~37.9 per cent for the urban workers' households, or 18.9~21.1 per cent for the unemployed households in 1998. For very poor households (below 25 per cent of median income), private income transfers were also very important in order to maintain their livelihood even though their scale was not large enough for them to be escape the poverty line.

Table 6.27. Household Income Sources by Yearly Income Quintile Groups (2000)
(Thousand won, per cent of Regular Income)

	Ave	I	II	III	IV	V
Regular Income	28,962 (100.0)	9,306 (100.0)	17,531 (100.0)	24,187 (100.0)	32,722 (100.0)	61,054 (100.0)
Earnings	16,402 (56.7)	5,047 (54.2)	10,919 (62.3)	14,811 (61.2)	20,554 (62.3)	30,673 (50.2)
Business Incomes	9,219 (31.8)	1,796 (19.3)	4,357 (24.9)	6,728 (27.8)	3,448 (27.8)	24,102 (39.5)
Property Incomes	1,659 (5.7)	625 (6.7)	728 (4.2)	1,061 (4.4)	1,570 (4.8)	4,308 (7.1)
Transfer Incomes	1,682 (5.8)	1,838 (19.8)	1,526 (8.7)	1,587 (6.6)	1,488 (4.5)	1,973 (3.2)
Pension	337 (1.2)	149 (1.6)	278 (1.6)	371 (1.5)	319 (1.0)	566 (0.9)
Other public transfer	169 (0.6)	316 (3.4)	186 (1.1)	106 (0.4)	115 (0.4)	119 (0.2)
Subsidy from other household	1,177 (4.1)	1,373 (14.8)	1,062 (6.1)	1,109 (4.6)	1,054 (3.2)	1,288 (2.1)

Source: National Statistical Office, *National Survey of Household Income and Expenditure 2000* – Vol. I
Two or More Person Household, 2002: 54.

Table 6.28. Poverty Reduction Effects of Private and Public Transfers¹: Average of 6 years (1992-1998)

	Poverty Rate (head-count)		Poverty Gap ²	
	Public Transfers	Private Transfers	Public Transfers	Private Transfers
Pre-Transfer (A)	19.26	20.61	46.86	53.66
Post-Transfer(B)	18.50	18.50	44.58	44.58
A-B	0.76	2.11	2.28	9.08
PRE ³	3.95	10.24	4.87	16.9

1. Poverty line and equivalent scale follows the official standard of Korea

2. (Poverty Line) - (Average income of households under poverty line)

3. Poverty Reduction Effect = (A-B)/A*100

Source: Re-organised from Choi, 2000: 45-49.

Table 6.29. Primary Income Source of the Elderly¹: International Comparison
(Per cent)

Major Income Sources	Korea		Japan		Taiwan		US		Germany
	'80	'95	'80	'95	'80	'95	'80	'95	1995
1. Earned Income	16.2	26.6	31.3	21.6	29.9	26.9	15.2	15.5	4.6
2. Assets Income	5.5	9.9	11.2	6.6	6.7	8.8	26.2	23.3	13.7
2.1 Income from Property	3.3	4.5	5.3	2.5	3.8	4.8	14.5	8.5	2.0
2.2 Saving	2.2	4.9	2.1	2.4	1.7	1.9	1.7	1.5	1.6
2.3 Private Income	0.0	0.5	3.8	1.7	0.2	2.1	10.0	13.3	10.1
3. Private Transfers	75.6	56.6	18.7	6.6	61.6	56.5	3.8	1.6	1.9
3.1 From Children	72.4	56.3	15.6	4.2	58.2	52.9	0.3	0.0	0.2
3.2 Others	3.2	0.3	3.1	2.4	3.4	3.6	3.5	1.6	1.7
4. Public Transfers	2.0	6.6	36.1	57.4	2.3	7.6	54.6	55.8	77.6
4.1 Public Pension	0.8	2.9	34.9	57.1	2.2	7.3	53.9	55.5	77.0
4.2 Public Assistance	1.2	3.7	1.2	0.3	0.1	0.3	0.7	0.3	0.6

1. 65 and more

Source: Seok & Kim, 2000: 35.

Similarly, according to Choi (2000), the average poverty reduction effects of private transfers between 1992 and 1998 were 2.5~3.5 times higher than those of public income transfers (see Table 6.28). In terms of the poverty rate, whereas the poverty reduction effect of private transfers was on average 10.24, that of the public transfers remained at 3.95. When we turn our focus to the poverty gap, the discrepancy of the effect between private and public income transfers becomes even wider; the private

transfer reduce the poverty gap by 9.08 on average but public transfers only reduced it by 2.28. Although Choi's study applies different research methods to the LIS, the poverty reduction effect of public transfers seems almost negligible in Korea when compared with that of major OECD countries³⁰. Rather, it seems that the role of family has been more important when people face financial difficulty.

Table 6.30. Method of Raising Living Costs: the Aged 60 years and over (2002)

	(per cent)				
	Earning or business ¹	Property income ¹	Children's supports	Pension ¹	Others ²
Average	38.6	10.7	40.1	6.5	4.1
Male	50.4	12.4	25.0	9.3	2.9
Female	30.2	9.5	51.0	4.5	4.8
Aged 60-64	59.2	11.6	19.0	8.3	1.9
65-69	43.0	11.5	34.4	7.7	3.4
70-79	20.6	10.0	58.7	4.8	5.9
80 or over	6.2	7.4	77.8	1.1	7.6

1. Themselves or spouse

2. Public assistance, aids from society and etc.

Source: National Statistical Office, 2002 Report on the Social Statistics Survey

Most of all, private income transfers have been known as a primary income source for the elderly. Table 6.29, which indicates some international comparisons of the

³⁰ LIS (Luxembourg Income Study) has developed a research method that is suitable for international comparison; e.g. a common definition of disposable income, an equivalent scale and a poverty line. The table below indicates the poverty reduction effect by head-count in major OECD countries. When compared with the figures of Korea, although Choi's study uses an absolute poverty line and different equivalent scale, we are able to easily recognise the nominal, rather than substantial, role of public transfers in terms of poverty reduction.

Poverty Reduction Effect in Major OECD Countries (Poverty Rate, Head Count): 1995

Country	Pre-Transfer (A)	Post-Transfer (B)	A-B	Poverty Reduction Effect
Sweden	33.3	6.1	27.2	81
Norway	24.4	5.3	19.1	78
Germany	25.6	6.9	18.7	73
Netherlands	20.1	5.6	14.5	72
UK	31.7	12.1	19.6	61
Australia	27.9	12.9	15.0	53
Canada	24.7	10.7	14.0	56
US	24.2	16.6	7.6	31
Average	25.8	9.5	16.3	63.2

Source: Kim, 2000; Recited from Choi, 2000: 46.

primary income sources of the elderly, provides some useful information. In Germany and the United States, the proportion of the elderly whose primary income source is shown to be the private transfers from children was close to 'zero'. Instead, as everyone can suppose, public pension schemes were the most important income source for most elderly people in US, Germany and Japan, even though incomes from the market (earning and assets income) were the primary income source for a significant part of the elderly in Japan and US. On the contrary, private income transfers, which mainly come from adult children still remain as one of the most important income sources for more than the half of the elderly in Korea (and in Taiwan), despite a notable decrease between 1980 and 1995. Furthermore, what must be indicated is that, the reduced proportion of private transfers as a primary income source was filled by a higher dependence on market incomes (earning and assets income), rather than on public income security schemes. In terms of income composition, it was reported that, in 1996, the average income of the elderly was composed by an earned income of 37.5 per cent, an assets income of 26.8 per cent, private transfers of 27.5 per cent and public transfers of 7.8 per cent; in other words the proportion of each can be expressed roughly as 'work : market : family : state = 4 : 2.5 : 2.5 : 1' (Seok & Kim, 2000: 39). A more recent survey has also indicated that the vast majority of elderly people depend on the market or the family for their livelihood, rather than on state welfare (see Table 6.30). For more than half of the female elderly and older elderly groups (aged 70 and over), the support of their children formed the main source of their income.

Informal Caring

As investigated in chapter 4, the fast industrialisation and urbanisation of Korean society has transformed household structures significantly (e.g. the reduction of three-generation households) and the traditional caring capability of the family seems to have decreased. Nevertheless, the family has taken the greatest caring responsibility, especially for the fragile elderly, as is the case in many Western welfare states. Especially, different from many advanced welfare states, co-habitation of the elderly with their adult children has remained as the largest residential category in Korea even though we cannot expect the same trend to occur in the future. In 1998, despite a

significant decrease in the co-residence rate since the 1970s, still more than half of the elderly households were included in the category of 'co-residence with children'³¹ (see Table 6.31). And, according to the most recent national population census data, 49 per cent of the elderly aged 65 or more lived with their children and another 22.7 per cent of them resided in neighbouring areas³² in 2000 (NSO, 2002:112). So, we can conclude that, if the norm of 'adjacent separate living' (Chang, 1997: 28) is considered, the vast majority of the elderly are still being cared for by their adult children either directly or indirectly.

Table 6.31. Distribution of Elderly Households by Household Type: 1998

	(per cent)		
	Total	Urban	Rural
Elderly Alone	20.1	18.1	23.6
Elderly Couple ¹	21.6	18.3	27.5
Co-residence with Children	53.2	57.6	45.4
Others	5.1	6.0	3.5

1. Either one of couple or both of couple are 65 or more.

Source: Jung et al., 1998: 68.

'Adjacent separate living' has made it possible for elderly parents and their (grand)children to look after each other without damage to independent living. An exact case showing the advantages of 'adjacent separate living' can be found within the example of day-care for pre-school children. Despite the expansion of nursery institutions during the 1990s, the primary responsibility of the family does not seem to have been changed (see Table 6.32). 93 per cent of infants (age between 0 and 2) are cared for by either their parents or other family members (mainly grandmothers). Especially in the case of working mothers, where informal care by their own mothers (or mother-in-laws) seems very important.

³¹ What is more interesting is that, 'elderly alone' and 'elderly couple' households are more prevalent in rural area than in cities. According to Jung et al. (1998), 54 per cent and 40.7 per cent of the elderly lived with their children in urban and rural areas respectively. This is opposite to the expectation that the traditional extended family would be preserved more in rural communities, but it is due to the rapid urbanisation which has been accompanied with the migration of the younger generation to cities.

³² Same eup/myeon/dong (the most basic unit of region) or shi/gun/gu (the lowest level of local government like 'city').

Table 6.32. Day-care (Carers) for Pre-school Children: 1998

(%)

	Parents	Relatives/ Family Member	Housemaid/ Home Helper	Nurseries/ Institutions/ Kindergarden	Others
Total	52.6	9.7	0.9	36.2	0.6
Mother's Employment Status					
Working	24.0	22.1	2.5	50.5	1.1
Non-working	70.8	2.4	0.1	26.4	0.3
Age of Pre-school Children					
0	88.1	10.1	1.0	0.6	0.1
1-2	78.3	13.0	1.2	7.1	0.4
3-4	44.4	9.6	0.9	44.3	0.9
5-6	16.5	6.1	0.4	75.9	0.9

Source: NSO (2000), *Report on Social Statistics Survey*.**Table 6.33. Primary Carer-giver for the Elderly with Chronic Disease: 1998**

(per cent)

	Spouse	Eldest Son/ Daughter- in-law	Other Son/ Daughter- in-law	Daughter/ Son-in- law	Unmarried Child	Other
Total	43.9	23.4	14.4	9.8	2.5	6.1
Region						
Urban	41.5	22.9	15.5	12.0	2.6	5.6
Rural	48.3	24.0	12.5	5.9	2.2	7.1
Age						
65-69	63.6	15.3	11.1	5.7	1.9	2.4
70-74	47.3	16.2	14.0	12.1	3.6	6.9
75~	24.4	35.9	17.5	11.5	2.0	8.7
Sex						
Male	87.9	5.0	3.8	1.6	0.2	1.6
Female	16.8	34.6	20.9	14.9	3.8	8.9

Note. Among the elderly with chronic disease, the ratio of receiving care is 37.3%.

Source: Jung et al., 1998: 279.

In addition, the family has almost exclusively taken a caring responsibility for the fragile elderly in Korea. Examples of the elderly being cared for by other sources outside the family are very rare. As seen from Table 6.33, among the elderly with chronic diseases receiving care, 93.9 per cent were cared for by either their spouse or children in 1998. For elderly males, the exclusive source of informal caring was their wives (almost 90 per cent). By contrast, the caring responsibility for elderly females was most likely to be attributed to the eldest son or daughter-in-law. In the case of elderly people who require more intensive care, the caring responsibility tended to be spread out more (see Table 6.34). The eldest son or daughter-in-law was more likely to be the primary carer than the spouse or other children. This trend can be explained by traditional Confucian culture, which puts an emphasis on the role of the eldest son and daughter-in-law in terms of filial piety. However, when wives were available, most elderly males (68.4 per cent) were likely to receive care from their spouses.

Table 6.34. Primary Carer-giver for the Elderly with IADL(s)¹: 1998

	(Per cent)					
	Spouse	Eldest Son/ Daughter-in-law	Other Son/ Daughter-in-law	Daughter/ Son-in-law	Unmarried Child	Other ²
Total	24.5	27.7	16.0	9.6	2.9	19.4
Region						
Urban	22.0	26.2	16.5	12.8	3.6	19.0
Rural	28.2	29.8	15.2	5.0	1.9	19.8
Age						
65-69	42.9	20.0	14.9	7.1	3.5	11.7
70-74	30.9	17.1	16.8	8.7	4.5	22.0
75~	14.2	36.3	15.9	11.1	1.8	20.8
Sex						
Male	68.4	12.0	9.8	3.6	0.4	5.9
Female	11.8	32.2	17.8	11.4	3.7	23.3

Note. Among the elderly with IADL(s), 65.5% (A) are receiving care, 10.7% (B) need it but do not receive and 23.9% respond that they do not require it. Care-receiving rate is 86.0% (calculated as $A/(A+B)*100$).

1. Severe difficulty (cannot do without help) in any one or more among 6 items;

Bath or Shower, Changing Cloths, Sitting or Standing, Bedding, Walking, Toileting.

2. Including grandchildren/spouse, friends and neighbours.

Source: Jung et al., 1998: 279.

As a result, it is evident that the family has taken the caring responsibility almost exclusively³³. However, this point leaves some room to make two different arguments possible. The first is that, in Korea, where the influence of Confucianism is still strong³⁴, the role of the family (or informal sector in general) was and is crucial in the area of caring. In other words, the strong role of the family is a very prominent feature of the welfare mix in Korea. The other argument is that, the reason why the family has taken most responsibility in caring is closely connected to the underdeveloped public social service system. Moreover, when we consider that informal caring is extremely subject to the availability of family members or personal networks, the prevalence of informal welfare can raise the problem of insufficient coverage as well as the issue of inequality. Most of all, all the main features discussed so far raise questions about gender inequality issue within informal caring.

Gender Issue of Informal Caring

As discussed in chapter 2, one of the most crucial issues in the informal caring is the gendered nature of caring. Korea is no exception. Rather, connected with cultural features, the gendered feature of informal caring is deployed quite complexly in Korea. Most of care-givers are women. What is different from the features of informal caring in Western welfare states is that the dominant care-givers for the elderly are daughter-in-laws, rather than daughters. As indicated above, most of elderly males received informal caring from their wives but only 16.8 per cent of the elderly females with chronic diseases and 11.8 per cent of them with ADL, were primarily cared for by their husbands in 1998 (see Table 6.33 and 6.34). In the context of the Korean situation, it seems quite normal that elderly females look after their husbands but not *vice versa*. It is probably due to either the fact that men live shorter lives than women or the patriarchal taboo that caring is not men's work. So the caring responsibility is given to daughter-in-

³³ Although caring for the disabled has not been discussed, the situation does not seem any different. Considering the lack of daycare institutions or facilities, the caring responsibility for the disabled also seems to have been attributed to the family. In terms of institutional caring, the number of disabled people was estimated to be 1,053 thousand in 1995 but only 2.4 per cent (25 thousand) of them are accommodated within institutions (MOHW, 2000: 231).

³⁴ Han Park and Cho (1995: 131) indicate that 'Confucian influence on the Korean family is still strong; persistent deference by wives to their husband's status and role, son preference, and strong kinship bonds'.

laws' when their mother-in-laws require care. According to a national survey held in 1984 (Im et al, 1985: 221-36; recited in Chang, 1997: 33), the proportion of daughter-in-laws amongst carers was 93.8 per cent. In 1998, more than the half of elderly females with ADL or chronic disease were cared for by son and daughter-in-laws (see Table 6.33 and 6.34 again). Under Confucian patriarchal norms, sons (especially the eldest son) take most responsibility in looking after the elderly, and it means that substantially most of caring burden is imputed to daughter-in-laws.

Table 6.35. Time Spent on Domestic Work of Married Couples: 1999

	(per cent, Hour:Minute)							
	Single Career Couple ¹				Double Career Couple			
	Wives		Husbands		Wives		Husbands	
	Ratio ²	Time ³	Ratio ²	Time ³	Ratio ²	Time ³	Ratio ²	Time ³
Total Domestic Work	99.8	6:43	39.5	1:06	99.0	3:45	43.3	1:00
Meal Preparation	99.2	2:28	4.4	0:30	96.5	1:50	8.8	0:34
Cloth Care	74.4	0:59	1.3	0:24	56.0	0:44	2.2	0:28
Cleaning	90.8	1:01	12.6	0:31	75.2	0:45	19.1	0:32
House Upkeep	16.2	0:30	8.3	0:49	8.4	0:26	10.5	0:47
Shopping	62.2	0:44	7.9	0:37	37.8	0:36	7.4	0:35
Household Maintenance	20.7	0:26	2.4	0:31	11.5	0:23	3.5	0:28
Caring Family	79.3	2:29	20.5	1:03	56.2	1:10	14.2	0:55

1. Husbands working, Wives not working.

2. Participation Rate (%)

3. Participant Average Time Spent (Hour:Minute)

Source: National Statistical Office (2000b), *Report on the Time Use Survey 1999*.

The gendered feature of informal caring is confirmed again by recent national time survey data (NSO, 2000b). As Table 6.35 indicates, whereas almost 80 per cent of housewives (single career couple) or 56 per cent of career women were involved in some forms of informal caring, the ratios among men were much lower in both categories. More generally, despite the increase in women's participation in the labour market, women's burden of domestic work does not seem to have lessened. Rather, according to a study (Kong et al., 1990: 114-17; recited in Chang, 1997: 32), working

wives had a greater burden of domestic work (81.6 per cent of total domestic work) than that of non-employed housewives (80 per cent) in the late 1980s. This trend has hardly changed; according to the time survey of 1999, it seems evident that the employment status of wives does not affect the domestic work of their husbands. Rather, although working wives spend less time on unpaid domestic work, the contributions of their husbands is less than that of the husbands of non-working housewives. Regardless of their employment status, almost all wives do some domestic work everyday. For working wives, although they tend to spend less time on domestic work than non-working housewives, they still have to take on almost four hours' burden a day. In conclusion, the dual burden hypothesis – that working women suffer from both paid work and non-paid domestic work – seems quite valid in Korea, and the embedded gender division of labour has hardly changed so far.

6.6. Summary and Conclusion

In this chapter, I have presented the significant changes in the welfare mix between 1987 and 2002 (major changes are summarised in Table 6.36). First, one of the most important and outstanding features of the welfare mix changes, departing from its residual nature, the state's commitment to and interventions in social welfare have greatly expanded. The official coverage of social insurance institutions had expanded and was finally universalised by 2000. The entitlement to public assistance benefits was established as a social right and the demographic conditions were abolished by the public assistance reform of 1999. Also, there were significant expansions in some social services, even though it was accompanied by a role for the state as regulator providing substantial financial support, rather than a direct provider. Secondly, welfare markets emerged and/or grew substantially in health, pensions and some social services. In addition, despite a significant reduction, the market dominance in health expenditure remained strong. Thirdly, in general, the importance of enterprise welfare increased. Voluntary enterprise welfare had been expanded greatly by the mid-1990s and the kinds

of the benefits diversified throughout the 1990s. Between 1997 and 2000, there were not only massive expansions in mandatory enterprise welfare benefits as the (non-intended) result of the state's previous interventions, but also severe fluctuations. For many workers who lost their job or retired, the mandatory severance payments were a *de facto* substitute for the scarce public benefits. Fourthly, the third sector not only remained as the largest provider of formal statutory social services despite strong state support and control, but also experimented with a pioneering role in new social services and its advocacy role emerged and grew in social policy making processes. Nonetheless, as seen from the financial and employment structure of social welfare organisations, its size and relative importance in overall welfare mix provisions remained marginal. Lastly, the capability and actual welfare provision of the family was declining, but family provisions still remained as the most important welfare source for the majority of people. Private income transfers were more important than public ones. Despite a significant decrease, still most of the elderly lived with or were cared for by their adult children, and the family took on most of the caring burden.

So, if we could summarise the main tendencies in welfare mix provision until 1987 as 'a residual and limited state welfare, underdeveloped welfare markets despite growing insurance markets in general, a substantial enterprise welfare as a substitute for state welfare, a marginal and subordinated third sector, and pervasive family provision as the primary welfare source'. The major changes to welfare mix provisions between 1987 and 2002 can be defined 'the expansion of state welfare, the emergence and growth of welfare markets, the increasing importance of enterprise welfare, the still marginal and subordinated third sector, and a declining but still important family sector'.

Although these changes in welfare mix provisions *per se* are significant enough, the following three important points embedded in the changes should not be ignored. Firstly, the institutional legacies of the welfare mix structure formed until 1987 are strongly represented in the changes to the welfare mix between 1987 and 2002. Such path-dependent development in the welfare mix changes can be supported by the abundant empirical evidence. In state welfare, the coverage expansion of social insurances was implemented basically within the existing institutional settings, rather than being fuelled by radical institutional changes. The subsidiarity principle, based on strong familialism, largely remained in public assistance and statutory social service systems. The market dominance of health expenditure structure had not changed much

by 2002, nor was there any fundamental proposals which were linked to actual policy implementation. In enterprise welfare, its nature as a *de facto* substitute for state welfare was still prominent, especially in the area of mandatory benefits. In social service delivery, the utilisation of the third sector by the government (the collective-vendor model) has been reinforced.

Table 6.36. Welfare Mix Changes between 1987 and 2002: Summary

	Major Changes of the Welfare Mix	Results
State	<ul style="list-style-type: none"> • Expansion of coverage and universalisation of social insurance but exclusion of irregular workers • Public assistance reform (abolishment of demographic conditions, workfare programmes and general expansion) but still strong familialism • Significant expansions in some social services, but subsidiarity principle and utilisation of the third sector not changed. 	Expanding commitments to social welfare, but inequality and inequity issues among different classes/groups
Market	<ul style="list-style-type: none"> • Growing private insurance markets in health and pensions, but fragile to the economic conditions. Growing inequality between have and have-nots in health and pensions expected • Despite a significant reduction, the market dominance in health expenditure still remains strong • Emerging private markets in some social services. Polarisation of the elderly residential services between poor and rich 	Emerging and growing welfare markets, hence higher inequality according to purchasing power
Enterprise	<ul style="list-style-type: none"> • Rapid expansion and diversification in voluntary enterprise welfare until the mid-1990s as a means of wage restriction and industrial peace. Basically sensitive to economic conditions • Massive expansion and severe fluctuations in mandatory enterprise welfare benefits since the crisis • Inequality among workers deepened in both mandatory and voluntary benefits. 	Expansion in general and a <i>de facto</i> substitute for state welfare among (regular) core workers, but basically fragile and unequal
Third Sector	<ul style="list-style-type: none"> • Still the largest provider in formal statutory social services, but under strong state's support and control. • Rising pioneering role and leading to new social services. • Nonetheless, still small third sector size in terms of expenditure and employment • Expansion of CSOs' influence on social policy making processes. 	Increasing voice but still marginal in the overall welfare mix structure
Family	<ul style="list-style-type: none"> • Private transfers more important than public ones • Despite a significant decrease, still most of the elderly live with or are cared for by their adult children • Despite its declining capability in providing caring and services, most of caring burden is taken by the family. • Gender inequality in caring and domestic work. 	In general, declining in both capability and actual welfare provision, but still most important welfare source for majority of people

Secondly and closely related to the path-dependent development, the dominant state intervention types largely remained in the welfare mix changes. The dominant role of the state in social welfare was as a regulator, rather than a direct provider or financier. The scope of the state's direct provision role was largely restricted to the public income maintenance system (social insurances and public assistances). Although the state expanded its role as a direct provider through the expansion of social insurance coverage between 1987 and 2002, the state's financial supports for social insurance was always marginal and public assistance benefit recipients as well as most of statutory social services were targeted narrowly through the subsidiarity principle based on strong familialism. Instead, the state as a regulator and indirect financier encouraged or mandated social welfare provision by non-state sectors through various interventions, as can be seen in the example of the dominant role of the third sector in social service delivery, the mandatory enterprise welfare programmes being substitutes or compliments to the scarce state welfare, and the encouragement of welfare markets and voluntary enterprise welfare provisions. In addition, related to strong familialism, the state never forgot to put an emphasis on the role of the family as the primary welfare provider, and supported the family through indirect tax benefits.

Lastly, significant inequality issues among different classes, groups and genders were absorbed in the welfare mix changes between 1987 and 2002 (see Table 6.36 again). Irregular workers were largely excluded from the actual social insurance coverage as well as mandatory enterprise welfare benefits. Emerging and growing welfare markets imply a higher inequality according to purchasing power, and thus were very fragile to the economic conditions. The inequality in enterprise welfare between workers in large and small workplaces deepened in mandatory as well as voluntary benefits. Within family welfare provision, the gender inequality issues can be raised when considering informal caring and domestic work.

CHAPTER 7. DYNAMICS OF THE WELFARE MIX CHANGES: ENVIRONMENTS, INSTITUTIONS AND WELFARE POLITICS

In the research, the welfare mix as a whole is the dependent variable that needs to be explained. Although there are many studies that have explained the development of specific sectors of welfare mix, especially state welfare (Kim and Sung, 1993; H.K. Lee, 1993, 1999; C.S. Nam, 2000; D.M. Shin, 2000; H.J. Kwon, 1999), enterprise welfare (H.K. Song, 1995; C. Park, 1996; K.J. Hong, 1999) and the third sector (H.K. Lee, 1998; S.Y. Moon, 2000; J.K. Kim, 2000), there has been no systematic attempt to analyse and explain the development of the overall welfare mix. In this research, however, I have attempted to do this. In this chapter, I turn the focus of the research to the ultimate goal of the research, i.e., explaining the changes to the overall welfare mix, based on the dynamics between environments, institutions and political actors. Most of all, as I proposed earlier, the qualitative context and political processes of the changes shall be emphasised throughout this chapter, by synthesising both a structure-centred and actor-based approach. In other words, although the structural and institutional factors provide the conditions, contexts and constraints for the welfare mix changes, the interaction and dynamics among different political actors significantly influence on social policy processes. So, the main discussion and arguments of the chapter concentrate on how environments (external forces and internal pressures) and domestic institutions (political democratisation, social pact institutions and institutional legacies of the welfare mix until 1987) influenced the welfare mix changes and through which policy processes and welfare politics. By doing so, I shall ultimately argue the importance of national politics in the dynamics of the welfare mix in Korea.

As I explained in the first chapter, to explain the overall welfare mix structure, I have depended not only on extensive academic literature but also on a large amount of grey literature and my own interviews. I shall refer to a lot of newspaper articles, speeches of the Presidents, a collection of reminiscences and interviews that were

produced by a newspaper company, official statements of business agencies, trade unions and civil society organisations as main sources of grey literature. I have conducted my own interview with two professional activists who have speculated and participated in welfare politics. They have been deeply involved in the pension, health and public assistance reforms as members of government committees as well as representatives of civil society under the Kim Dae Jung government. Since their activities have been closely connected to trade unions and other political actors including high officials of government Ministries and the Presidential Office, they could provide abundant information and stories behind the policy making processes, including the positions and recognitions of different political actors. Based on synthesising all this information and literature, I analyse and interpret social policy processes to develop my arguments on how environments, institutions and the role of the state and other political actors have been intermediated through and how they have been associated with changes in the welfare mix.

The explanations of the welfare mix changes will be dealt with in chronological order, following the changes of government. Since the Korean polity adopts a presidential government system, the power of the President is stronger than any other political actor and parties. In this respect, changes to the government *per se* have brought significant changes of political situations. So, the chronological order of the explanations reflects the importance of the polity, along with the general transformations of environments and political democratisation. From now on, the political and institutional intermediation between structural changes and welfare mix changes in the post-1987 period will be investigated, according to a change of governments – the Rho Tae Woo (1988-1992), Kim Young Sam (1993-1997) and Kim Dae Jung (1998-2002) governments – in the following three sections. Although the dynamics of welfare politics were revealed most dramatically under the Kim Dae Jung government, the institutional foundations of welfare politics – political democratisation since 1987 and social pact experiments from the early 1990s – were formed much earlier, let alone the fast transforming internal, external environments.

7.1. Stable Environments, Democratisation and the State-dominated Welfare Politics: 1987~1992

Whilst the Korean economy has enjoyed an extraordinary rapid growth since the 1960s, the political institution remained crippled under the control of a military dictatorship. Since the strict political authoritarianism which continued until 1987 suppressed virtually all economic and political desires that people claimed, the main social forces in society like worker and student groups primarily concentrated on the establishment of procedural democracy. Once the wave of mass demonstrations between 1985 and 1987 had swept every corner of nation, President Chun and his most likely Presidential successor Mr. Roh were forced to make a concession in June 1987. Mr. Roh, who also led the Coup with Chun in 1979, announced the Declaration for Democracy. The so-called '6.29 Declaration' included a set of democratic measures including a constitutional amendment to a direct presidential election and the release and the reinstatement into society of political prisoners. Although the democratic camp led by Kim Young Sam and Kim Dae Jung failed to gain power in the 1987 presidential election, their opposition parties succeeded in gaining the majority in the National Assembly in the 1988 general election. Parliamentary democracy was at least formally restored.

The rapid dissolution of political authoritarianism, however, continued until the time of the political and social turbulence between 1987 and 1989. The democratisation provided a momentum for the 'Great Struggle of labour'. The dissolution of authoritarianism also changed the repressive industrial relationship in workplaces and workers began to speak out with the demands that they had earlier repressed. Between 1987 and 1989, 5200 new trade unions were formed at a workplace level and the mobilisation rate increased by 5 %, from 13.8 per cent to 18.6 per cent (see Table 6.16). The number of industrial disputes and workers involved during 3 years exceeded 7 thousand and 1.9 million respectively. Trade unions not only protested for the rapid wage increases but also protested against the repressive legal system of industrial law. At the end of 1987, just after the time when the militant industrial disputes were at a peak, a set of industrial laws including the Trade Union Law and the Labour Dispute Adjustment Law, were amended to reduce or withdraw the government's major

regulations concerning union establishment and the restriction on collective action. With this as a turning point, the Roh Tae Woo government, launched in February 1988, could not continue the repressive labour controls of past regimes. Furthermore, Roh gained only 35.9 per cent of vote in the Presidential election and his ruling party was defeated in the general election of 1988. Under the circumstances of his frail political basis, Roh and his government could not exercise an absolute power in the policy processes as past regimes had done. Lee comments this point as follows;

During the first two years of President Roh's term, the nation was to encounter ceaseless political turmoil, social unrest and the erosion of social discipline. Roh, himself a former military general, was hampered by the image that he was close to the military and not true civilian. The Roh government's early responses to the social unrest were compensatory and welfare oriented. (H.K. Lee, 1999: 29).

In addition, the excellent economic performance between 1986 and 1988 was another contributing factor to the social unrest and demands on the fruits of the nation's economic development. More favourable international economic conditions – low international interest rates, low oil prices and a low Korean currency value (Coming in parallel with an appreciation of the Japanese Yen) led to a rapid improvement of the international competitiveness of the manufacturing industry of Korea. Between 1986 and 1988, the amount of exports increased from 34.7 to 60.7 billion US dollars, and Korea recorded a balance-of-payment surplus for the first time (Bank of Korea, various years). Based on such a good performance in exports, the annual growth rate of the three consecutive years of 1986, 1987 and 1988 reached two digits; 11.6, 11.5 and 11.3 per cent respectively. Moreover, thanks to the rapid economic growth, employment in industry also increased rapidly, and the unemployment rate began to fall down below 2 per cent from 1987 (see Table 4.1 and Table 4.4). A general shortage of labour force and an especially severe imbalance of labour supply and demand between different industries began to occur from the late 1980s (J.J. Huh, 2004: 297). Under these economic conditions, the government and business could do nothing but accept the demands of labour to some extent.

Most of all, under the conditions of a labour shortage in manufacturing industry and the 'militant' trade unionism between 1987 and 1989, business and the government

had to accept a big increase in real wages exceeding the productivity growth rate. The annual increase rate of real wages was on average 8.8 per cent between 1985 and 1990, far exceeding the 5.6 per cent level of the real productivity increase rate (J.H. Jung, 2004: 326-8). This was largely due to the fact that business could not depend on the state's compulsive measure for wage restriction anymore because the government officially elucidated non-intervention in industrial relations. Real wages rose 7.8 per cent in 1988, 14.5 per cent in 1989 and 9.5 per cent in 1990 (see Table 6.16). On the other hand, the government also expanded its social welfare measures in terms of a compensation for workers. The Roh government announced a master plan for workers' welfare including an increase in housing supply, the establishment of a worker's bank and the introduction of the intra-company welfare fund. The government also legislated and implemented the minimum wage system from 1988. More importantly, there was meaningful progress in social insurance. In 1988, the National Pension Insurance scheme, initially covering workplaces with 10 or more workers, was launched as scheduled. In 1989, the Medical Insurance programmes was universalised by extending its coverage to the self-employed and workplaces with 4 or less workers.

Although the President could not dominate political situations and opposition parties held the National Assembly, he executed a veto against more rapid reformative legislation. When the opposition parties made further revisions to industrial law, which allowed labour rights of civil servants, the political activities of trade unions and third-party intervention, to pass the National Assembly in 1989, the President executed his veto (K.S. Lee, 2000). In addition, another Presidential veto was executed against the plan for the unification of the MIP¹. For large conglomerates (mostly *Chebols*), they could form a medical insurance association by themselves, it meant the individual conglomerate could control the fund. So business, and the economic Ministries (The Economic Planning Board and the Ministry of Finance), opposed the unification proposal and, finally, the President accepted their disagreement.

Furthermore, Roh's initial appeasement orientation was revised with another political upheaval, i.e., the Grand Conservative Coalition in January 1990. The ruling forces recognised that they could not stabilise political and economic unrest with their

¹ In front of the universalisation of the MIP, the regional insurers – mainly farmers' agencies – argued that their contribution burden was much higher than that of workers. The alternatives suggested were to unify the MIP insurers into a single organization and the half of contribution had to be supported by the government. The three opposition parties, occupying the majority of the National Assembly, politically accepted the unification policy and passed the legislation.

existing minority seat in the National Assembly. From 1989, with the exhaustion of favourable international circumstances based on the three low prices, the international competitiveness of Korea's exports goods began to be marginal. The main reason was indicated as due to the 'excessive' wage jump. The economic growth rate fell to 6.4 per cent in 1989, from 11.3 per cent in 1988. Conservative groups criticised the government's abandonment of the ceaseless social unrest, caused by the 'militant' labour movement and the students' anti-government demonstrations. The only solution was the restoration of the principle of law and order standards, and to achieve this a more powerful ruling party was required (H.K. Lee, *op. cit*). At last, three political parties (one ruling and two opposition parties) announced their merger, establishing the Democratic Liberal Party (DLP). One of the most influential democratic leaders, Kim Young Sam, became the Presidential candidate of the ruling DLP by joining the so-called Grand Conservative Coalition. Now the government began to deal with industrial relations more actively. The government began to set a wage guideline to restrict its rapid increase, and it also introduced the intra-company welfare fund in 1991 and induced employers to provide more enterprise welfare on the other. Really, the labour cost of the enterprise welfare began to rapidly increase from 1989. Between 1989 and 1992, the annual average increase rate was recorded at about 30 per cent (see Figure 6.3). On the other hand, by 1992, the coverage of the NPI and the IAICI had been incrementally extended to workplaces with 5 employees or more (see Table 6.1).

In addition, internal socio-demographic problems began to emerge. Such problems required to change in the structure of social service providers, from accommodated institutions to user service facilities to meet the welfare needs of communities. Instead of providing direct services, the government began to induce NPOs to establish users' social service facilities to cope with such phenomena as the increase in the number of elderly people and the rise of non-typical (single-parent) households. In 1989, the government announced a set of regulations to encourage the establishment of community welfare centres operated by NPOs and the number of the centres rapidly increased between 1990 and 1993, from 88 to 250 centres (MOHW, 1996). On the other hand, as the women's participation rate was growing and the labour shortage problem continued, the government legislated the Nursery Act, which stipulated the installation of public, private and workplace nurseries, in 1991. All of these facilities, along with the existing residential institutions for providing statutory

social services, were subject to state regulation as well as financial supports, and the vertical relationship between the government and the third sector had hardly changed.

Although the breakdown of the unification of the MIP showed the political nature of welfare issues, most social welfare policies were still dominated by the government. Neither civil society organisations (CSOs) nor trade unions emerged as main actors in welfare politics. To begin with the former, the existing influential organisation, the Citizens' Coalition for Economic Justice (CCEJ), concentrated on economic issues rather than on the social welfare. Besides this, the activists of the democratic camp remained on the street but they were not absorbed into CSOs. Most of all, there was no central or peak trade union organisation that could represent the newly established 'democratic' trade unions after 1987. Of course, there was the Federation of Korea Trade Unions (hereafter, FKTU) as the existing peak association of trade unions. However, this was regarded as a government-patronised trade union, and, really, the FKTU, established in the 1960s, gave previous authoritarian governments blind support and regimes were allowed to politically manipulate labour through controlling the FKTU (B.S. Yoo, 2003: 80). Instead of the FKTU, the newly mobilised 'democratic' trade unions founded the 'National Commission of Trade Unions' as their central agency in January 1990.

However, although the democratic trade union camp was already concerned about social welfare issues to some extent, the government never recognised the camp as a legally legitimate organisation. Therefore, the likelihood of its participation in welfare politics was thoroughly prevented and the democratic trade unions concentrated on the obtainment of a legal status. Instead, in 1990, the FKTU proposed the National Economic and Social Conference (hereafter, NESF) in order to discuss social welfare issues with business. It was as a result of the FKTU's strategic selection that it tried to discriminate itself from 'radical' labour movements (B.S. Yoo, Ibid: 82-3). The FKTU wanted to establish an image of a 'new trade unionism for a democratic welfare society' through pursuing legal social reform. By doing so, at the same time, the FKTU wanted to set out its new identification, free from the label of the earlier government-patronised organisation. The NESF was the first trial of social pact politics even though the government was not involved directly. The FKTU did not want to discuss wage issue, but business and the government sought to take the opportunity to rationalise the government's wage guideline policy. As a result, both issues were dealt and the NESF

became the forum for collective industrial relations between the FKTU and the Korea Employers' Federation (hereafter, KEF). The NESC proposed several policy suggestions including the expansion of social insurance coverage and NPI reform, but most of them were not reflected by government policy (the government did not accept many of them). Without the policy support by the government, the NESC was useless and became only nominal.

To sum up, with relatively stable external and internal environments, the period between 1987 and 1992 was the time when the basic preconditions for the working of the welfare politics (i.e., the political democratisation and the rise of labour movement) emerged, rather than their political dynamics concerning social welfare issues became active. The initial expansion of social insurance institutions was as a result of the government's political necessity as compensatory measures for social unrest, but the principle of the 'minimised financial burden of the state' remained untouched. Again, the role of the state in social welfare as a regulator, rather than a direct provider, was reinforced as the government continued to utilise the third sector in its expansion of social services. Moreover, the rapid expansion of enterprise welfare during this period was also induced by the government's minimal intervention in industrial relations and its regulations like the legalisation for the intra-company welfare fund. In this respect, the government was the most important actor in the 'immature' welfare politics of this period.

7.2. Increasing External Pressures, Establishment of the 'Civilian' Government and the Emerging 'Real' Welfare Politics: 1993~1997

It was the 1992 Presidential election that provided a chance to establish a 'true' civilian government and to sweep away all the negative legacies of previous military regimes. President Kim Young Sam distanced his government from the previous ones by calling it the 'Civilian Government'. Although the President Kim Young Sam himself was elected by making the Grand Conservative Coalition with the ruling forces of the

previous military regimes, he tried to discontinue their negative legacies of cronyism and strong government interventions in the economy. Under the rhetoric of 'Constructing New Korea', the President Kim Young Sam wanted to renovate a basis of moral and political legitimacy distinct from the previous regimes, through implementing a set of political and economic reformative measures. In his inaugural address, he said;

We have to develop our strength to run towards 'New Korea'. But we are suffering from a disease. We are suffering from the 'Korean Disease' ... We have to implement and complete three reformative tasks. The first one is to sweep all the corruptions. The second one is to revitalise the economy. And the third one is to tighten the disciplines of the country. (Inaugural address of the President Kim Young Sam, 25/2/1993)

Firstly his government tried to sweep out the elite politicians from the military² and prosecuted those who were related to the corruption and cronyism of the previous regimes including former Presidents Chun (1980~1987) and Rho (1988~1992). Along with the political renovations, the government implemented strong economic revitalisation policies like the '100-day New Economy Plan' in the short term (D.M. Shin, 2001). The government and ruling elites believed that the Korean economy faced problematic situations³. The growth rate fell to 5.1 per cent in 1992 and 5.5 per cent in 1993, and the balance of payments recorded deficits for three consecutive years between 1990 and 1992. The government diagnosed the main reason for the economic problems as the weakness in the nation's international competitiveness caused by the severe industrial conflicts during the Roh government. Furthermore, the government in its early years recognised that Korea's economic difficulties originated from rather fundamental problems, the so-called 'Korean Disease'. Institutionalised corruption, political rent-seeking, concentrated economic power and a loosened work discipline formed the problems causing the difficulties (H.K. Lee, 1999: 30). As a measure to drive out the embedded cronyism and to gain a transparent financial and taxation system, the government suddenly announced the launch of the 'Real-name Financial Transaction

² President Kim Young Sam held a strong line that the elites of the previous military regimes should be excluded from the new Cabinet of his government (Special News Team of *Donailbo*(an influential daily newspaper in Korea), *Lost 5 Years – the behind story of the 'Civilian Government' 1800 days*, p 22)

³ For example, President Kim said, '*So far, I have done my best to establish the democratisation of the country. But, as the President, I believe that the revitalisation of the economy is the historical mission at present*' (Special speech on the 'New Economy Plan', 19/3/1993).

System (RFTS)’⁴ in August 1993.

Although the Kim Young Sam government sought to control the wage increases, it had to depend on a new form of social consent between labour and business. In these processes, the social welfare issue could not be ignored. The ‘civilian’ government differentiated itself from the previous ‘military’ regimes by making labour and business reach an autonomous agreement on the wage issue (B.S. Yoo, 2003). For the government, the Wage Agreement Council (WAC) between the KEF and FKTU was regarded as an efficient instrument for pursuing both procedural democracy and the objective of wage restriction. The KEF also thought the stabilisation of wage increases was possible through negotiation at a central level (KEF, 1994: 32; recited from *Ibid*: 84). For business, the rapid real wage increases were regarded as one of the most urgent problems, so employers were ready to discuss the social welfare issue alongside debate of the wage problem. The FKTU and the KEF reached an agreement on the wage increase rate of 4.7~8.9 per cent in 1993. The government and business propagated it as a ‘historical fact’, but the FKTU was criticised by the democratic trade union camp and field workers because the process of the agreement lacked a democratic procedure within its organisation. To overcome such criticism, the FKTU argued the necessity of social policy discussion in 1994. The government also accepted it and the KEF and the FKTU announced a ‘social consent’ in April 1994; it included not only the wage issue but also comprehensive contents on social policy reform including the expansion of social insurance coverage, increases in companies’ efforts in enterprise welfare and supporting the workers’ housing problem (*Ibid*: 84-5). However, the WAC became nominal soon because the government did not implement their policy suggestions. Moreover, since the WAC, alike the NECS, excluded the democratic trade union camp, the influence of the agreements was limited. Severe criticisms were raised about the deceit by the government and business groups.

In spite of the strong political and economic reforms of the new government, little attention was paid to social welfare issues. Under the logic of the so-called ‘pain-sharing’ to heal the ‘Korean Disease’, the government announced that the demands for social welfare expansion as well as labour’s protest for wage increases had to be

⁴ As a matter of fact, financial transactions through false-name and/or borrowed name accounts were regarded as critical measures of cronyism, corruption and political rent-seeking. Although the system faced a vigorous resistance, the government propelled its implementation as scheduled. Especially, President Kim was very active to implement the RFTS as the core part of his reformative policies (Special News Team of *Donailbo*, pp. 274-297).

controlled⁵. In this respect, as Sung (K.R. Sung, 2002: 497) indicates, at least for its first two years, the Kim Young Sam government did not seem to consider a comprehensive plan for social welfare expansion at all. Only the Employment Insurance System was legislated for in 1993 (implemented from 1995) which was scheduled by the previous Rho government, to support the industrial restructuring the government recognised that it was indispensable when looking to regain Korea's international competitiveness. As many indicate, in the EIS, the feature of industrial policy was stronger than that of social security function for the unemployed (H.S. Ahn, 1995; H.K. Lee HK, 1999; D.M. Shin, 2001; K.R. Sung, 2002). The 14 day waiting period, short benefit duration, strict benefit requirements and low replacement ratio were the main features of the unemployment benefit programmes whereas employment stabilisation and vocational training programmes required relatively generous conditions.

Also, the introduction of the Private Individual Pension Schemes in 1994 showed the pro-market nature of the government's interventions in welfare issues. As a matter of fact, the Private Individual Pension Schemes (PIPS) began to be discussed to support the RFTS (*Hankookilbo*, 26/1/1994). The government worried about the likelihood that the implementation of the RFTS would cause a mass exit of savings from formal financial institutions. Business, especially financial institutions and insurance companies, strongly call for PIPS as early as possible to fill the pension market in advance before NPI coverage was expanded to the self-employed. To encourage savings, the government allowed all types of financial institutions to deal with PIPS and provided taxation support, including a tax exemption for interests as well as income deductions for the premiums (or savings) paid (*Hankeorae*, 3/4/1994). What must be indicated here is that the government recognised PIPS as a social welfare measure (*Hankeorae*, 12/4/1994), but the implementation of PIPS was dominated by the Ministry of Finance without policy consultation with the Ministry of Health and Society⁶. The government recommended PIPS instead of extending the coverage of the

⁵ The President Kim put his initial policy priority on the economic growth and the international competitiveness in his 'Five-Year New Economy Plan'. He said *'In this year, as the first year [of 'Five-Year New Economy Plan], the government attempts to recover the international competitiveness and to revitalise the economy. ... In the fourth year, 1996, the government will make efforts on deal with such issues like housing, environment, transport, old-age and social welfare, to pull up the quality of life of the people. I will restrict the government expenditure as low as possible. ... The government shall become the small and productive one. ... I appeal to workers. ... Let the wage become stable this year. Farmers and Fishermen, please participate in the pain-sharing'* (Special speech on the 'New Economy Plan', 19/3/1993).

⁶ So, there was no master plan to settle the long-term relationship between the PIPS and the NPI, in terms

NPI to the self-employed. Under the fierce competition among financial institutions, the PIPS market had expanded dramatically by 1996 (see Table 6.10).

It was in 1995 that the Kim Young Sam government changed its catchphrase for a national reform, from constructing 'New Korea' in its early years to '*Saegyewha*' (Globalisation in Korean). The environmental forces that pushed such a change were the intensifying external pressure for market openness and financial liberalisation in the early 1990s⁷. The government recognised that the pressures of globalisation were unavoidable and Korea had to meet the challenge of globalisation successfully⁸. Although some CSOs and the opposition party were opposed to it, the Kim Young Sam government hurried to join the OECD⁹. And to do so, all Korea's social and economic system had to reach global standards of excellence. So the government not only accelerated economic openness to global economy through the removal of most of financial regulation¹⁰, but also had to meet all the global social standards that the OECD required.

of the private-public partnership in old-age pension schemes. Labour and CSOs did not raise the issue, either (Interview with Y.M.Kim, 10/5/2004).

⁷ As a matter of fact, Korea was under a high market opening pressure from the mid-1980s. The US, which recorded a severe trade balance deficit with Korea, required the Korean government to open a commodity market to promote its exports, and later raised more fundamental issues that might have caused the deficit since the late 1980s, i.e., Korea's industrial policy and financial system to promote exports. Most commodity markets except some agricultural products were liberalised though the withdrawal of import restrictions until 1991, almost all non-commodity markets as well as agricultural markets were forced to be open in the early 1990s. In terms of the financial system, until 1997 most financial regulation of the government such as interest rates, foreign exchange and international capital flow were abolished or were diminished greatly.

⁸ This recognition was presented well within the President's address on the 'embodiment of *Saegyewha* (globalisation)', 26/1/1995. In this address, the President Kim asserted that '*in the era of globalisation ... the 'productivity' and 'flexibility' of all the sectors like politics, economy, public administration, society, and culture should be strengthened*'. This recognition had become the fundamental basis of the reform policies of his government between 1995 and 1997, including the openness of financial markets and liberalisation of international capital mobility, and the reforms to industrial relations. Also, these reform policies were the main negotiation agendas with the OECD (*Chosunilbo*, 2/7/1996, 12/10/1996; *Hankookilbo*, 12/10/1996).

⁹ The opposition Democratic Party announced that entrance to the OECD was too early (*Chosunilbo*, 16/3/1995) because Korea had to open the financial and capital markets completely according to the dual entry conditions, i.e., the 'Service Liberalisation Agreement' and the 'Capital Transaction Agreement'. Especially the CCEJ worried that, when Korea joined the OECD, it could give rise to serious economic instability, caused by the massive mobility of international capital, so-called 'hot money' (*Dongailbo*, 14/3/1995). However, the government actively conducted the P.R. on the advantages that Korea could utilise the accumulated experience and information of the advanced economies. Minister of Finance and Economy, Mr. Hong, said '*Korea is already recognised its qualification by the OECD*' (*Dongailbo*, 30/3/1995). Nonetheless, the dominant view and comment on the entry to the OECD was a kind of 'political achievement' for the Civilian government and was worried about the possible disadvantages caused by the unavoidable openness (the editorial of *Chosunilbo*, 2/7/1996).

¹⁰ Really, the gross private capital flows as per cent of GDP began to increase rapidly from 1994 (see Table 4.2)

Most of all, while the openness of most agricultural markets caused by the Uruguay Round produced a severe social conflict between sectors with and sectors without competitiveness, the construction of social cohesion seemed an indispensable factor in the globalisation age. When the first shock wave of globalisation swept the rural communities of the country, farmers' agencies resisted it vigorously but economic Ministries and employers' agencies like the KEF asserted its inevitability for the entire Korean economy (Special News Team of *Donailbo*: 325-340). With the promise of comprehensive supports and subsidies to the agricultural industry¹¹, the government only manage a conciliation with them through the extension of the NPI to the rural self-employed. This should be understood as the typical example of how some state welfare programmes can be expanded as the functional equivalent to protectionism or as a compensation to the victims of globalisation (Reiger and Liebfried, 2003). From 1995 the NPI began to cover the rural self-employed under the existing NPI system and the government decided on bringing in financial support to the NPI contributions of farmers.

More fundamental welfare reform plans rose to the surface when the President Kim Young Sam announced the '*Saegyewha*' in the Summit Conference for Social Development in Copenhagen and asserted the 'globalisation of quality of life' in March 1995 (*Kyunghyangshinmun*, 24/3/1995; K.R. Sung, 2002: 498-9). In May 1995, the National Welfare Planning Board (hereafter NWPB) was established under the *Saegyewha* Committee. In February 1996, the Committee reported the 'Basic Ideas on the National Welfare for the globalisation of quality of life' to the President. This report suggested a Korean social welfare model with five basic ideas (National Welfare Planning Board, 1996); first, a harmonisation between economic growth and social welfare; second, a social security model reflecting the originality of the Korean situations enough; third, the reinforcement of productive and preventive welfare; fourth, the construction of a pluralizing welfare community (the construction of welfare pluralism); finally, the simultaneous achievement of material and mental welfare. In addition, the report indicated five implementation strategies as follows. First, the social

¹¹ In a special speech on the Uruguay Round, the President said, '*I sincerely apologise for the result that the government could not protect the rice market completely. ... I will strongly implement the master plan like, not only the improvement of structural bases in agricultural communities, the restoration of the advantages that the Uruguay Round and the openness of the agricultural market produce to farmers and agricultural communities, but also the reforms of related institutions and structures including the monetary compensations for farmers*' (Special speech of the President on the openness of the rice market, 9/12/1993).

safety net would be constructed until 2000 so that all people should be protected by social insurance. For this, the extension of social insurance coverage, the improvement of social insurance management and the construction of a nation-wide network were suggested. Secondly, a minimal livelihood should be guaranteed for all people. Such measures were indicated at the introduction of supplementary benefits, reinforcement of rehabilitation for low-income families, the raising public assistant benefit level and the implementation of protective social policy. Thirdly, the expansion of social services should be able to not only cope with ageing population, but also to facilitate the economic participation of women. Fourthly, the concept of 'cultural welfare' should be introduced. Fifthly, the participation of private sectors including NPOs, firms and religious groups should be encouraged within social welfare in order to construct a Korean welfare community. The new Korean welfare model should facilitate collaborative fund raising and volunteering, and could partly accept the 'fee-for-service' principle (Choi et al, 2000: chap. 7).

Although the report contained a comprehensive master plan for a Korean welfare model, the main focus was placed on the long-term plan which could not be immediately implemented by the Kim Young Sam government. The universal coverage of social insurance was scheduled between 1998 and 2000, and the implementation was passed over to the next government. However, the plan's emphasis on non-state sectors was supported within a set of policy measures. In 1997, the Elderly Welfare Law was amended and for-profit firms were allowed to enter the elderly welfare service market. Business, of course, welcomed it and some large companies began to establish luxurious nursing homes (so-called 'Silver Town') for the wealthy elderly. In addition, to facilitate third sector's fund raising and to mobilise private resources in social service provision, the government enacted a law for the Social Welfare Collaborative Fund Raising System (Community Chest or the Korean United Way) in 1997¹². Along with the new interventions, to minimise the government's financial burden, it continued the strategy of an 'NPO dominated social service structure' and, for example, the number of community welfare centres almost doubled under the Kim Young Sam government, from 175 to 329 (MOHW, 1996, 2000).

¹² However, the SWCFRS were faced with the fierce opposition of NPOs because the SWCFRS, a nation-wide fund raising body, would cause a reduction in NPOs' individual fund raising as well as the legislation for the SWCFRS levied too many regulations of the Government (H.S. Cho and T.S. Lee, 1999).

Eventually and different from its ambitious plan, the Kim Young Sam government was very cautious to expand the state welfare and the ruling elites. Especially neo-liberal economists of the Korea Development Institute (KDI), always worried about the budgetary austerity that might occur in the long run (H.P. Moon, 1995). The nature of the government can also be found in the report of the National Pension Reform Committee in 1997. The NPI scheme had been criticized as an unsustainably generous benefit system with relatively low contributions. It was worried that the unbalanced financial structure of 'low contributions and high benefits', along with the population ageing, would cause the long-term financial instability of the NPI¹³. So the Committee suggested a pension reform whose main contents were an expansion of the NPI coverage to the urban self-employed by 1998 and to represent a market conforming approach; i.e., the Committee proposed a dual system of a basic universal pension as the first tier (pay-as-you-go) and income-related benefits for second tier (fully funded); this proposal was similar to that proposed by the World Bank¹⁴. According to this model, not only would the NPI only cover the first tier (possibly the second tier but only for employees), but also the vertical redistribution effect would be far reduced.

Another important example of the market-confirming welfare reforms can be found in the controversy over the IAICI privatisation between 1996 and 1997. In August 1996, business required the government to introduce the competitive system to the IAICI and recognise the exemption of white-collar workers from its compulsory coverage¹⁵. The Ministry of Finance and Economy announced that the IAICI would be opened to private insurance companies to improve the 'monopolised and inefficient' system in January 1997 (MOFE, 1996; *Kyunghyangshinmun*, 5/1/1997). But there were

¹³ The NWPB estimated that, if the existing contribution and benefit rate were maintained, the NPI fund would be exhausted by 2033 (*Kyunghyangshinmun*, 29/1/1996).

¹⁴ In the NPRC three proposals were under examination. The first plan was to focus on the maintenance of the existing NPI with a gradual institutional improvement. It suggested, following the traditional public pension reforms in advanced welfare states, pulling up the contribution rate and cutting down the replacement ratio without structural reform to the NPI. The second plan was a structural reform transforming the existing single tier pension scheme to a two-tier system, the National Pension would be divided into a pay-as-you-go type basic pension and a funded type income-related scheme. It was known that the Board had a plan to privatise the second scheme in the long term (World Bank, 2000: 29; recited from Yang, 2001: 73). At last, a full privatisation proposal like the Chilean reforms were considered as the third plan (fully funded individual saving account). The Board decided on the second plan as its final suggestion to the President in December 1997 (J.J. Yang, 2001: 72-4).

¹⁵ The Korea Chamber of Commerce and Industry (hereafter KCCI) held a meeting between leading managers and Minister of Finance and Economy. In this meeting, they proposed the plan to the Minister to reduce the burden of IAICI contributions.

serious criticisms that the privatisation of the IAICI would cause an adverse selection problem, and most of the small-medium size firms would have to take on a greater burden in the existing IAICI whereas the burden on large firms would be reduced (Ministry of Labour, 1997; KIHASA, 1997). This proposal caused a serious social conflict. Labour (FKTU and KCDTU) and related organisations were fiercely opposed against it (Hankyeorae, 22/1/1997; KCDTU, 1997; FKTU, 1997). Although the government, the MOFE, finally decided to legislate for the privatisation of the IAICI during 1997 (*Naeoekyungjaeshinmun*, 19/7/1997; *Seoulshinmun*, 11/8/1997), such a radical reform was not realised due to a lame duck, which was more accelerated by the Financial Crisis of 1997.

As a result, the master plan for welfare reform by the Kim Young Sam government lack concrete proposals and was hardly implemented. On the other hand, even though they were not implemented, the pension reform proposals of the NPRPB and the controversy over the IAICI privatisation revealed the market-confirmative or productivist nature of the social policies. The state's intervention in social welfare remained minimal, and the state's expenditure on social welfare as a percentage of GDP even decreased, compared with the previous Rho government (see Table 4.8). Instead, the Kim Young Sam government encouraged welfare provisions from private sectors, especially the market sector, as seen in PIPS example. Lee evaluates that;

Generally speaking, the efforts of the Kim Young Sam administration in social welfare reform were focused on the systematic search for a new comprehensive model of Korean social welfare which would enhance national competitiveness in the changing environment. It wanted to encourage private sector initiatives to participate in the provision of social welfare services and to expand the social security system within the general principle of small government with productivist priorities. But it had neither the comprehensive immediate action plans to strengthen the private sector, nor the notion of the balance of the responsibility between the state and the private sector. In other words, much of the concrete and specific choices of policies and programmes were left open for further discussion. (H.K.Lee, 1999: 32)

In some respects, the labour reforms of the Kim Young Sam government were more noteworthy, than its welfare reforms. In spite of the political democratisation since 1987, Korea's labour legislation still levied severe restrictions on basic labour rights. Since the execution of the Presidential veto in 1989, both labour and business groups

continuously argued for labour reform. Business asserted that the series of rigid labour regulations on layoffs, dispatched workers and working hours should be reduced. The labour market flexibility, for employers, seemed indispensable in enhancing the firms' competitiveness. On the other hand, labour, especially the democratic trade union camp, had protested against the prohibition of multiple trade unions, unions' political activities and the deprivation of labour rights for teachers and civil servants. Moreover, the Korean government had been under intensifying external pressures from IGOs. Not only had the ILO continuously required the Korean government to be more consistent with the ILO's labour standards, but the OECD also raised issues of labour reforms when looking to negotiating Korea's entry conditions (*Chosunilbo*, 2/7/1996 and 12/10/1996). Also, labour reform was necessary in terms of the consolidation of democracy in Korea. Finally, in 1996, the government launched the Presidential Committee on Industrial Relation Reform (hereafter, PCIRR) to induce a social compromise between labour and business¹⁶. The government again depended on the social pact politics.

Basically, the PCIRR was the place of exchange the legalisation of democratic labour movements and neo-liberal labour market flexibility. Labour accepted a part of labour market flexibility, and in turn it obtained the major basic labour rights. Most of all, the PCIRR, which existed between 1996 and 1998, was different from the previous experiments of social consent in terms of the following points. Most of all, the Korea Confederation of Democratic Trade Unions¹⁷ (hereafter, KCDTU), which was thoroughly excluded from social pact politics before, participated in the Committee and was recognised as a legal agency. Secondly, not only the amendments of labour-related laws but also the overall social welfare agenda were dealt with by the Committee. The main agreements concerning social welfare were for income deductions for NPI contributions, reforms of social insurance management and the expansion of the Industrial Injury and Accident Compensation Insurance coverage. Although labour's primary concern was labour reform itself, it is worthy to note that labour began to state its interest in pursuing social welfare reform.

¹⁶ The President's recognition on the necessity of a social consent mechanism in industrial reform is presented well in his special speech on the 'Embodiment of the New Industrial Relations', 24/4/1996.

¹⁷ In January 1990, the National Commission of Trade Unions' was established as a central agency of 'democratic' trade unions, and its name was changed to the 'National Council of Trade Union Representatives' in 1993. And, it was the predecessor of the 'Korea Confederation of Democratic Trade Unions' (KCDTU), which was established in November 1995.

During the era of the Kim Young Sam government, the conditions for the working of dynamic welfare politics matured – democracy was consolidated through labour reform, the KCDTU began to emerge as an important actor and the PCIRR showed new possibilities within social pact politics. When the privatisation plan of the IAICI was proposed by the government, labour groups were instantly opposed to it. Moreover, as the newly established CSOs extended their scope of influence and some of them like People's Solidarity for Participatory Democracy began to turn the direction of their social movement towards social welfare issues. Nevertheless, the government's dominance in welfare politics had hardly changed. The role of political parties and interests groups in welfare politics could hardly be found. There were no fundamental welfare reforms that possibly provoked a fierce conflict between the actors of welfare politics. But the professional bureaucracy and government committees cautiously considered the possible long-term effects of socio-demographic change as well as their financial viability within their policy development processes. Most of all, the government's recognition of the external pressures was critical in determining the policy direction. Basically, when the government set its policy priority to meet the challenge of globalisation, the direction of welfare reforms was market conforming and productivist way so as not to injure national competitiveness and economic development. In this respect, business did not need to take a different stance from that of the government at least in social welfare areas, even though business proposed the privatisation of the IAICI and sometimes resisted against some of the reformative policies like RFTS and regulation policies over *Chebols*. Business pushed the government to accept its demands for labour market flexibility. In turn, it had to make concessions for the expansion of trade union activities. Although labour emerged as a key political actor in social pact politics, basic labour rights, rather than social welfare as a social wage, were still the main object for negotiation with business. Under these conditions, the basic picture of the welfare mix has not changed significantly compared with the previous period (under the Rho government), and most of the institutional legacies of the welfare mix and related state interventions were largely represented.

7.3. Financial Crisis, Social Dislocation and the Dynamic Welfare Politics under the Kim Dae Jung Government: 1998~2002

There are many explanations of the financial crisis of Korea in 1997 – the limitations of the developmental state, cronyism, the rapid deregulation and liberalisation of the financial market in the early and mid 1990s, the attack of venture capital, the indiscreet foreign loans of *Chebols* and short-term financial companies and so on (S.W. Chang, 1998; Goldstein, 1998; J.Y. Jung, 1998; W.C. Jung, 1998; Wade and Veneroso, 1998). This is not the place to deal with them. Whatever the reason was, however, the financial crisis brought enormous socio-economic shocks, incomparable with those caused by the previous openness of the agricultural market. At least during the initial stages of the Financial Crisis, the Korean government lost a substantial part of its policy autonomy on macro-economic management through IMF standby agreements¹⁸, and it had to adopt the policies of austerity, high interest rates and a devaluation of the Korean currency, in spite of the rapid economic recession which followed. As a result, Korea barely escaped from the moratorium, but consumption, production and investment all were rapidly depressed. Many firms were bankrupt and the unemployment rate leapt up.

In addition, even though both external forces and internal pressures had continuously intensified since the early 1990s, such intensification was mostly concentrated on the period since the Financial crisis of 1997. Most of all, whilst the major driving force of the Korean economy had been the vitality of domestic markets between the early and mid 1990s, the economic recovery after the financial crisis was more dependent on a rapid increase in exports¹⁹. Moreover, capital mobility in general had augmented enormously and FDI inflows also greatly increased between 1998 and 2000 (see Table 4.2). When the government had to accept the IMF's liberalisation policy prescriptions including deregulation of capital mobility and the abolition of the floating

¹⁸ The IMF managing director Michel Camdessus urged that not only the existing Korean government but also all the President Candidates had to promise to implement the conditionality that IMF would require (Special News Team of *Dongailbo*, 1999: 223-4). And, really, they agreed with it (*Chosunilbo*, 22/11/1997). The President-elect Kim Dae Jung asserted that the agreement with the IMF would be completely implemented when he met some high officials of the US (*Hankyeorae*, 23/12/1997). Although the long-term influences of the IMF agreements on the Korean macro-economic and social policies seems sceptical (Interview with Jin Young Moon, 29/2/2004), it is evident that the Korean government had to implement a set of neo-liberal policy prescriptions in a relatively short period.

¹⁹ The share of trade in goods as a percentage of GDP had decreased until 1993, but it began to increase again from 1994 and reached at 60-70 per cent level after 1998 (see Table 4.2)

limits on the exchange rate between 1997 and 1998, the global integration of the Korean economy was seen to dramatically intensify under the Kim Dae Jung government. At the same time, the long-term internal pressures began to rise to the surface. The mass unemployment following the Crisis and the labour market flexibility led an overall deterioration of the labour market. The economic crisis seemed to speed up the de-industrialisation process and heightened the instability of employment: both industrial employment and regular employment had decreased significantly since the Crisis (see Table 4.4). Moreover, although the demographic pressure would be expected to cause more long-term impacts, the indicators related to the family and household structure consistently revealed an intensification of the internal pressures for less than two decades between 1985 and 2002; the divorce rate leapt up by almost 5 times, the average household size dropped by 1 person per household between 1985 and 2000 and the share of single households increased more than two times (see Table 4.5 and 4.6).

What all these internal changes say is evidence of newly rising needs on (social) services and, at the same time, the decreasing capability of the family in terms of service and caring provision. Most of all, the economic shocks caused by the Financial Crisis created, not only mass unemployment and poverty, but also new social problems such as homelessness and family dissolutions. But the social welfare institutions could not fully cope with the social dissolutions; the coverage of social insurance was not enough and the public assistance system did not provide benefits to the able-bodied. The basis of public social services remained marginal. In this respect, the Financial Crisis provided an opportunity to review how insufficient the existing social welfare system was to cope with a situation of social crisis. Not only economic, labour market reforms to overcome the shocks of the Financial Crisis, but also the large-scale social welfare reforms to deal with the social crisis, emerged as the most urgent tasks for President-elect Kim Dae Jung. The first step to cope with the Crisis was to construct a social consent mechanism.

The Tripartite Committee and the Social Pact Politics

Politically, the financial crisis helped to provide more favourable conditions for a change of regime. People elected Kim Dae Jung, the leader of the first opposition party,

as President, instead of giving their confidence to the ruling *Shinhankook* (New Korea, in English) party again. Although the peaceful change of government from the ruling to the opposition party was another milestone in the development of Korea's democracy, the new Kim Dae Jung government faced enormous pressure to overcome the crisis. Soon after the Presidential election on the 18th of December 1997, the President-elect Kim Dae Jung led the Cabinet even though he had to wait for two months to become the President. The IMF required neo-liberal restructuring in the form of increased labour market flexibility, the deregulation of financial markets and foreign capital flows, a reduction in intervention in the foreign exchange market and the austerity of financial policy (*Chosunilbo*, 4/12/1997). At the same time, the IBRD and the World Bank called for the government to construct a social safety net to support the restructuring (MOFE, *SAL II Policy Matrix*, 1998). Under these urgent conditions and requirements, what Kim Dae Jung did first was to extract social consent on the fair 'pain-sharing' between labour, business and the government, to collaboratively overcome the crisis²⁰.

At the end of December, 1997, the President-elect Kim Dae Jung urgently proposed that labour, business and the government should form the Tripartite Committee (*Chosunilbo*, 26/12/1997). He recognised that, to cope with the unprecedented crisis, the collaboration of labour would be indispensable. His government had to immediately follow the IMF's policy recommendations such as labour market flexibility. If this is the case, the mobilised labour would struggle against the one-sided sacrifice²¹. Moreover, Kim Dae Jung, who continuously proposed and promised the harmonious development of democracy and the market economy, wanted to gain a procedural legitimacy for his social and economic reforms through the Tripartite Committee. Therefore, the government had to give equivalent compensations like social welfare and additional labour standard improvements to labour. The FKTU and the KCDTU could do nothing but strategically accept the proposals of Kim Dae Jung because, if labour market flexibility was unavoidable, they had to do their best to obtain the greatest rewards possible (B.S. Yoo, 2003: 136). Instead, they called for the direct participation of the government within the Committee because they wanted a

²⁰ In the second letter of Intent to the IMF, the government had already promised to extract a social consent among the major economic actors on 24/12/1997 (*Hankyeorae*, 27/12/1997)

²¹ The President-elect Kim Dae Jung recognised the inevitability of labour market flexibility to overcome the financial crisis (*Hankyeorae*, 23/12/1997). But, the KFTU and KCDTU warned that, if the labour legislations was amended to allow massive layoffs, they would resist it with all possible measures including 'general strikes' (*Chosunilbo*, 26/12/1997).

guarantee that the policy agreements produced by the Committee would be immediately implemented. It was an opportunity for labour, which had been thoroughly excluded from the policy making process, to emerge as an influential actor in welfare politics. On the other hand, business did not have any other alternative but to participate in the Committee because *Chebols* were being blamed as the culprits causing the crisis. Moreover, employers expected that labour market flexibility measures including the reduction of layoff requirements would be agreed within the Committee.

Table 7.1. Different Recognition about the Crisis

	Labour	Business	Government
Cause of Crisis	Structural factor: Chebol system & cronyism	Economic cycle and external factors outside firms	Social system and Chebols' behaviour
Focus of Restructuring	Reforming Chebols and political structure	Labour market flexibility	Overall reform of social system including Chebol reform and labour market flexibility
Alternatives for overcoming the Crisis	Expansion of basic labour right and social welfare	Withdrawal of state regulation and rationalisation of the labour market	Acceptance of the IMF's requirements: labour market flexibility along with the construction of a social safety net

Source: B.S. Yoo, 2003: 92

On the 15th January 1998, the Tripartite Committee was launched. The main agenda of the Committee covered comprehensive social and economic policy issues; the promotion of labour market flexibility, employment stability and unemployment policy, the endowment of basic labour rights to civil servants and teachers, the enhancement of the transparency of firms' management, an expansion of the social security system, the stabilisation of consumer prices, social integration and the economic crisis (H.T. Sun, 2003: 274-5). However, the processes in order to reach a comprehensive agreement were not simple. Most of all, as seen from Table 7.1, the recognition of, the diagnosis of and the alternative solutions to the crisis were different among the political actors involved. At last, after continuous negotiations, the Committee reached the 'Grand

Compromise for Overcoming the Economic Crisis' on 6th February, 1998. Generally speaking, although the political activities of trade unions were allowed and the basic labour rights of teachers and civil servants were recognised, the basic framework of the compromise was the exchange between labour market flexibility and social welfare. Among the contents of the compromise, agreements concerning social welfare expansion could be summarised into three categories (Choi et al, 2000: 448-50). Firstly, the EIS would be expanded to cope with the mass-unemployment. Universal coverage for the entire paid labour was scheduled to occur by 1998, the benefit requirements were loosened, the benefit duration was extended and the minimum benefit level increased to 70 per cent of the minimum wage. Secondly, to support the livelihood of the retired and the unemployed who were not be covered by the EIS, the committee called for a comprehensive unemployment policy. Thirdly, the committee made an agreement on the extension of the social security system which meant a growth of government spending on social security programmes, the reform of the social insurance management system, the reinforcement of the connection between labour market policy and the social insurance system, participation by representatives of labour, business and CSOs to monitor the operation of social insurance; and a unification of the MIP.

The committee became a presidential consultative agency in March 1998 and continued its activities in monitoring the implementation of the compromise as well as discussing the issues that could not be agreed. Although the grand compromise was fiercely criticised by field workers and trade unions at workplace level, the agreements on labour market flexibility was immediately legalised²². On the contrary, most reform plans targeting business were delayed and, to repel a one-sided sacrifice of labour, the KCDTU and the FKTU repeated the participation and withdrawal. In the end, the KCDTU rejected the participation in the Committee in December 1998. Sun (2002) indicates that the Tripartite committee only resulted in concession by labour and was the product of a collaborative strategy between the state and business to legitimate the neo-liberal restructuring. Even though the Committee became a permanent policy consultation agency via a special law in May 1999, its influences on policy formations and their implementation began to weaken when labour repeated the participation to and the withdrawal from the Committee (Choi et al, 1999: 233-262). This was because

²² The amended labour laws were passed by the National Assembly on 15th of February, just 9 days after the 'Grand Compromise' (*Hankyeorae*, 16/2/1998).

labour criticised the Committee, saying it had been degraded to an apparatus to approve government's policies without thoughtful discussion with labour (H.T. Sun, 2003: 280). Nevertheless, the activities of the sub-committee for social security were the most lively in the Tripartite committee and the Kim Dae Jung government implemented most of the agreements on social welfare policies between 1998 and 2000 (Choi et al., 2000). At least within the area of social welfare policy, the committee showed the possibility of social pact politics. Moreover, as labour emerged as a main actor in welfare politics, trade unions continuously exerted an influence and interests within later welfare reforms.

Pension Reform

As discussed in the previous section, a fundamental pension reform plan began to be considered under the Kim Young Sam government. The National Pension Reform Committee proposed a two-tier system but the Kim Dae Jung government started by investigating various alternatives. Most of all, since the public pension reforms formed one of the Structural Adjustment Loan (SAL) agreements between the government and the World Bank, part of the pension reforms of 1999, whose main tasks were to expand coverage and to promote a sound financial basis by mediating the contribution and benefit levels, were under the influence of the WB and the IMF.

However, in spite of the external pressure for neo-liberal pension reform, the ideal pension model of the WB was never accepted by the Kim Dae Jung government and the main contents of the NPI were hardly affected by the pension reforms of 1999 (Y.M. Kim, 2001: 41-2). Most of all, the government expanded NPI coverage to the self-employed without a separation of the NPI system from April, 1999, even though there was a strong argument for a separation – pension for employees and self-employed – based on a fierce criticism of the contribution equity issue between employees and the self-employed. The basic framework of the NPI maintained; the occupationally integrated pension system, the defined-benefit one-tier income-related system with considerable redistributive effects and a partly-funded type. Instead, the government reported that, to increase the sustainability of the NPI, its contribution rate would be raised step by step until 2015 to 18 per cent of income but would reduce the expected benefit level from 70 to 60 per cent of average income in the case of medium

income earners (Y.M. Kim, 2002:119-121). Kim evaluated the NPI reform to be an expansion of the social solidarity principle to the urban self-employed so that the state's responsibility in pension planning was widened to the entire population (Y.M. Kim, 2001, 2004).

Of course, business was opposed to the government's pension reform plan. Since the expansion of social insurance would ultimately crowd out the basis of the private insurance market, insurance companies worried about the expansion of the NPI coverage to self-employed because it would cause the reduction in their sales of individual pensions (Y.M. Kim, 2001: 47). More fundamentally, the FKI and its think tanks (the CFE and the IKER) have constantly criticised the NPI scheme on the basis of the following arguments; first, the government-dominated system would cause inefficiency and political risks in the fund operation; second, the old-age income security function of the national pension has been overlapping mandatory severance pay; finally, the partly-funded system, which supposes that the pension fund will be exhausted in the future, could not deal with the rapid trends of population ageing (J.G. Kim, 2003: 41-2). Most of all, employers' agencies protested against the scheduled contribution increases that would cause a higher labour cost (*Chosunilbo*, 18/9/2000). Since the unified pension fund would cause an additional burden of business, employers' agencies called for the separation of the national pension fund between workers (workplace) and the self-employed (regional). Furthermore, as an alternative to the existing NPI scheme, they suggested the market-conforming pension reform plan; the transformation of mandatory severance pay to an enterprise pension scheme and the construction of a three-tier pension system similar to the WB's alternative through the facilitation of individual pensions (Kong and Kwon, 1998; FKI, 1999a, 2000; O.S. Kwon, 1999).

Whilst employers' agencies revealed a relatively consistent attitude, labour's interest in the pension reform was not uniform. Along with the KEF and the KFI, the FKTU opposed the expansion of NPI coverage to the self-employed. The FKTU argued that, under the occupationally integrated pension system the government proposed, workers would be losers while the self-employed, who mostly underreport their incomes, would gain more (*Chosunilbo*, 3/5/1999). So the FKTU called for a separated pension system for workers or, at least, an independent fund for workers (*Dongailbo*, 14/7/1999). Although the opposition of business and the FKTU did not change the basic direction of

the pension reforms, the government faced serious opposition from paid workers. On the other side, based on nation-wide solidarity, the KCDTU basically supported the government's plan with CSOs like the PSPD. The KCDTU and CSOs worried that the separate pension schemes of the self-employed and workers would hinder social integration. Instead, the KCDTU as well as CSOs called for the government to reinforce its capability citing the underreported incomes of the self-employed (Y.M. Kim, 2001: 45-6; PSPD, 1999; *Hankyeorae*, 26/5/1999). As advocates of the whole population and especially for the unprivileged who could not mobilize their interests easily, CSOs played an important role in the expansion of the NPI. Especially, when expansion of the NPI faced resistance from other social groups, they confronted the opposing social forces with the logic of social solidarity and the public interest and made a coalition with the government and the KCDTU to overcome the opposition²³ (Interview with Jin Young Moon, 29/2/2004 and Yeon Myung Kim, 10/5/2004).

Health Reform

One of the most important changes in the welfare reforms of the Kim Dae Jung government was the unification of the MIP. As a matter of fact, the controversy between the unification and the maintenance of separate systems had continuously confronted each other for 20 years (K.S. Lee, 2000: 68-74). The unionists criticised the intensifying financial discrepancies between associations (until the MIP unification of 1998, there were 227 regional associations, 144 workplace associations and 1 corporation for civil servants and teachers), and they argued for unification under the logic of the equity of contribution, the reinforcement of the social security function, social solidarity, and the enlargement of risk by pooling to the national level. On the other hand, the separatists criticised the unification because the transparent worker's purse should not be abused to redistribute income from workers who pay tax directly to the self-employed many of whom avoid taxation. Moreover, the MIP system with multiple insurers, they argued, could induce competition between different associations and it would increase the

²³ In this respect, both interviewees agreed that, even though it was restricted to some of social welfare issues, a strategic-critical policy coalition between CSOs, labour and the government (The Presidential Office and the Ministry of Health and Welfare) emerged under the pro-welfare Kim Dae Jung government, instead of a state-business coalition.

possibility for a market-friendly system to avoid inefficiency.

The attitude of business had been made clear. The KEF and the FKI had always fought against a trial of the unification because the unification would allow the large firms' (*Chebols*) a degree of control over their own medical associations and funds (Y.M. Kim, 2001). Under the existing MIP system, a single firm with tens of thousands of workers could make up its own medical association. In addition, business worried about the likelihood that, in the long run, the unification of the MIP would improve the MIP benefits level and it could shrink the private health insurance market, which at the time was growing fast. When the government announced the unification of MIP, the KEF and FKI requested the freezing of employers' health insurance contributions (1.57 per cent) for the following three years and the division of the NHI fund into a workplace health insurance fund and a regional health insurance fund (KEF, 1997). Furthermore, even after the unification of the National Health Insurance system, employers' agencies have argued the necessity of the privatisation of social insurance. The FKI argued that the introduction of a Medical Savings Account (MSA) would be necessary to cope with the fundamental problems of the NHI (FKI, 2000).

On the other hand, the unification of the MIP required a recalibration of workers' interests in terms of the reserved fund and the possible increase in workers' contributions. Along with the KEF, the FKTU stood against the unification because it would cause a rapid increase in the workers' contributions and lose the workers' reserved fund of their associations. The FKTU expressed the exclusive interests of trade unions (or workers), rather than pursuing nation-wide equity. The FKTU formed an opposing coalition with employers' agencies and the opposition One-Nation Party, and induced the reversal of the financial integration between the workplace associations' fund and the regional associations' fund. On the other hand, same as in the case of the NPI, the KCDTU supported the unification on the basis of social solidarity. (Y.M. Kim, 2002a: 45-6)

Ahead of the Presidential election of 1997, the ruling One-Nation Party promised the unification of regional associations and the 'Medical Insurance Corporation for civil servants and teachers' in 1997. Since the opposition party led by Mr. Kim Dae Jung already ultimately planned the unification legislation including workplace associations, the National Assembly unanimously passed the first unification legislation (*Dongailbo*, 19/11/1997). According to the legislation, the first step of the

unification was implemented in October 1998. The National Medical Insurance Management Corporation was founded through a unification of the existing 227 regional associations and 1 corporation for civil servants and teachers. However, the financial integration between the two categories was deferred. Subsequently, based on the agreement of the Tripartite committee, the government issued a notification of the unification legislation. The government called for the National Assembly to pass the National Health Insurance Law during 1999 and it decided to implement the legislation from January 2000. In these processes, the People's Coalition for the Unification of the MIP, composed of 72 social groups including farmers' associations and CSOs participated in the coalition and played a decisive role in pressuring political parties into enacting it. However, the opposite coalition between business and the FKTU was also consolidated. Finally, when the issue of the contribution equity between workers and the self-employed was raised in 1999 and the opposition of the FKTU and employers' associations became fierce, the unification (the launch of the NHI) was postponed for 6 months (to July 2000) and the integration of the NHI funds was also delayed for two years²⁴ (*Chosunilbo*, 13/7/1999).

Public Assistance Reform

Whilst the pension and health reform, based on the Tripartite agreements, were enacted relatively smoothly, until the first half of 1999 there was no significant progress in the public assistance reforms, which was regarded as one of the most important tasks within the welfare reform of the Kim Dae Jung government. Although CSOs like the PSPD continuously petitioned the government for public assistance reforms, the government took a rather passive attitude. It was the President's decision that revised the situation to enact the public assistance reform²⁵. Nevertheless, most studies of the public assistance reform of 1999 (the enactment of National Basic Livelihood Security Law) stress the role of CSOs like the PSPD in policy making processes (B.Y. Ahn, 2000; M.A. Lee, 2000; S.W. Nam, 2000; J.Y. Moon, 2001). Substantially, as Ahn indicates (2000: 2), the

²⁴ The unification of the NHI funds was scheduled in January 2002, but it had not been implemented by the end of the Kim Dae Jung government.

²⁵ The speech of President Kim Dae Jung in Ulsan was decisive (Interview with Jin Young Moon, 29/2/2004)

CSOs, especially the PSPD, dominated all processes including agenda formation, alternative exploration and even legislation itself, and the Administration and the National Assembly followed such trends²⁶. Although the President's decision was decisive in the legislation, such a decision came as a result of the President's consideration of the viability of the CSOs' arguments as well as the prevailing set of political and economic conditions at that time simultaneously. Firstly, let us explore the CSOs' petitioning activities for the legislation for public assistance reform until June 1999, the time when the President referred to the necessity of its enactment.

The PSPD had deployed various social welfare movements since its foundation in 1994. A PSPD's professional sub-committee, the Social Welfare Committee was mainly composed of young scholars²⁷ and reformative lawyers, and had continuously argued for the dissolution of the Livelihood Protection Act and a guarantee of a national minimum for all people including the able-bodied (PSPD, 1994). The PSPD had started various public movements to put the issue on the policy agenda but the movement had not been paid any attention until the Crisis. However, the Crisis and the following social problems provided a decisive chance to raise it as a social issue. At that time, the government could not cope with the mass unemployment appropriately using the existing social security programmes. Since the coverage of the EIS was restricted, many of the unemployed were not able to depend on EIS benefits. Moreover, the existing public assistance programmes excluded the able-bodied. The government made special short-term programmes that gave livelihood protection benefits to the unemployed, but the special programmes would only last at best for two years. The PSPD asserted that the government could not construct a suitable social safety net under the existing public assistance system and it began a public movement for a petition on public assistance reform²⁸ (PSPD, 1998a, 1998b).

²⁶ Why NGOs appear as an important actor in social policy making processes, Ahn explains, is due to the fact that the needy could not be mobilised as an interest group and trade unions did not represent irregular workers and the chronic unemployed who required public assistance benefits. These situations made the NGOs take the role of agency as an advocator (Ahn, 2000: 2).

²⁷ It is quite interesting to mention that some junior university professors (social welfare or social policy department) have actively participated in the social policy processes as well as the social welfare movements. Professor Moon, Jin Young and Kim, Yeon Myung with whom I interviewed are the most representative examples. They were main actors in the Social Welfare Committee of the PSPD and participated in various government committees discussing welfare reform agendas during the Kim Dae Jung government. Whereas Professor Jin Young Moon specialised in the public assistance reforms, Professor Yeon Myung Kim was mainly involved in the health and pension reforms.

²⁸ The PSPD held a conference for the legislation of the National Basic Livelihood Security Law in June 1998, and deployed various social movements for it from July, 1998 (PSPD, *Petition for the National*

On the other hand, by Spring 1998, 209 nation-wide university professors specialising in social welfare, delivered an official statement that claimed the formation of a proper 'social safety net'. And the KCDTU and other important CSOs including religious and environmental NGOs joined the movement during the summer. With the help of a few reformative MPs, the legislation, the so-called 'National Basic Livelihood Security Law', passed the Health and Welfare Sub-committee of the National Assembly in December 1998 (Interview with Jin Young Moon, 29/2/2004). 28 social groups and CSOs including the PSPD, the KDCTU and the other 26 CSOs founded a new independent organisation, the 'Solidaristic Conference for the Legislation of the National Basic Livelihood Security Law' (Hereafter SC) in March 1999 (SC, 1999a). The Conference not only continued its public movements, but also lobbied ruling elites including high officials in the ruling party and the presidential office. Most of all, the professional group of the Conference, mainly young social welfare professors, developed logics, suggested alternatives and, even, proposed the concrete contents of the Law. In spite of the enthusiastic activities of the Conference, the position of the authorities concerned remained lukewarm and the social atmosphere did not seem fully matured to the legislation (Ahn, 2000:11). Here, the statement of the President in Ulsan on 21 June 1999 was decisive enough to break through the stalemate situation. Then why did the President suddenly decide on an enactment of the Law?

Park (2002) criticised the fact that most studies focus upon the role of CSOs and devalue the importance of political situation at that time. He indicates that the formation of the institution was the outcome of the interaction of various factors including the social and political situations, the President's understanding of those situations, and the CSOs' petition and active participation. Most of all, he focused on the political crisis in 1999. He argued that the political situation was decisive in the formation of public assistance reform; a set of political scandals and a following nation-wide disappointment with the government affected the President's understanding of the political and social situation in 1999. On the one hand, social problems caused by the Crisis like mass unemployment, the rise of poverty and the increase of homeless people, profoundly affected and shrank the basis of the President's supporting groups – the middle and lower classes. On the other hand, the government's moral crisis in the early

1999, caused by the 'furgate'²⁹ scandal and the 'rigging-strike'³⁰ scandal, forced the President to save the situation by turning the policy focus to social welfare reform. In this situation, the President could not do anything but use political gestures to break the deadlock, by adding productive welfare to his basic goals for the 'harmonious development of democracy and market economy'. The role of the President was decisive because no government ministry had reported a positive opinion on the legislation until the President's speech in Ulsan (June 1999). In this respect, it can be said that the role of CSOs was meaningful not in terms of the decision of the enactment itself but the formation of policy agenda and the policy development processes.

Anyway, the President's willingness to enact the legislation greatly contributed to an improvement of the position of the Conference (Interview with Jin Young Moon, 29/2/2004). The conference actively participated in the policy-making processes; it co-ordinated, mediated and negotiated various interests related to the legislation with the authorities concerned. It also monitored the processes so as not to deteriorate the original policy purpose (SC, 1999b, 1999c, 1999d). However, at this stage of its implementation, a more complex dynamic was revealed within welfare politics. The Ministry of Finance and Economy, which controlled the government's budget, took a negative position to the legislation and raised many issues including the budgetary constraints and its negative impact on the economy. And business took same position within the economic bureaucracy. The FKI argued in a report in 1999 that the fundamental solution to unemployment was to create employment based on the labour market flexibility, rather than to expand the social security system (FKI, 1999a). The CFE negatively suggested that giving public assistant benefits to the able-bodied would cause a negative work incentive and the means-testing processes would reveal a problem of higher administration costs and a lower target efficiency. So the CFE argued that the implementation had to be postponed and, more fundamentally, that the

²⁹ In May 1999, there was a suspicion that the wife of a CEO of a large insurance company, which had been subject to restructuring and M&A during the Crisis, had attempted to seek the influence of high senior government officials by buying their wives expensive clothes (*Chosunilbo*, 27/5/1999). A few high officials were arrested for the scandal.

³⁰ In 1998 the president of Korea Minting and Security Printing Corporation induced the first trade union to illegally go on to strike by proposing a compromise unacceptable to the trade union; he pushed ahead with a merger of the first two minting plants in the name of restructuring, about two years earlier than originally scheduled (*Hankyeorae*, 8/6/1999). When his intention to induce an illegal strike then broke down the trade union of the firm was revealed, the scandal gave rise to a strong resistance to trade unions. Labour at once blamed the government because, for trade union activists, it was regarded that the basic approach of the government to trade unions had not changed from the authoritarian repressive one of the past (*Dongailbo*, 11/6/1999).

government's public assistance reform plan had to be reconsidered (CFE, *opinion leader's digest* No. 64, 1999 and No.124, 2000). Although the Ministry of Finance and Economy could not be opposed to the public assistance reform itself because it was the president's decision, the economic bureaucracy induced 'non-decision making' by deferring the allocation of its budget (B.Y. Ahn, 2000). When the President referred to his definite willingness not to retrench the basic principle of the legislation, however, the public assistance reform plan was implemented without significant deterioration of the basic framework (Interview with Jin Young Moon, 29/2/2004)³¹.

The new public assistance system widened its entitlement to able-bodied, but the government introduced a workfare system, to cope with the logic of its negative effect on the incentive to work. The able-bodied people have to participate in workfare programmes to receive the livelihood benefits. The workfare programmes are diverse from simple manual works like cleaning to running collaborative businesses, but most of supporting agencies are run by NPOs. Since the government continued its welfare mix strategy, by especially utilising NPOs, in social services, the workfare supporting agencies increased from 20 in 1999 to 193 in 2002 (MOHW, 2003).

Non-State Sectors: Enterprise Welfare, Private Welfare Market and Third Sector Provisions

As noted earlier, the government induced firms to expand enterprise welfare as a substitute for state welfare or wage increases (J.S. Kim, 1999). Business as well as labour agreed with the expansion of enterprise welfare at the expense of maintaining industrial peace and rapid wage increase. Especially, at the workplace level, the issue of enterprise welfare had been one of the most important agenda in collective bargaining, and, therefore, workers in large firms with strong trade unions gained more enterprise welfare. Really, the increased rate of enterprise welfare expenditure had far exceeded that of the overall labour cost until 1997, yet it had also caused the deepening inequality of enterprise welfare between large and small-medium sized firms (J.H. Kim, 2003: 588-91).

³¹ Jin Young Moon asserted that the pro-welfare attitude of the President and his willingness were decisive in overcoming the opposition of the economic Ministries of the government when the political processes of the reform reached a deadlock

The drastic economic recession in 1998 revised the trend of continuous increases of enterprise welfare. Many firms were bankrupt and the surviving ones also cut their workers and reduced voluntary enterprise welfare benefits. It is noteworthy that the decreased rate of voluntary enterprise welfare in 1998 was larger than any other category of labour cost but the trend reversed again to a stable increase from 1999 (see the previous chapter, section 6.3). Kim interprets that firms began to control the increase of voluntary welfare expenditure in terms of the management of the overall labour cost (2003: 585). Business began to call for the government to meet the expansion of welfare institutions for workers using the public finance, not finance from employers. When the government legislated for the extension of paid maternity leave by 30 days (from 60 to 90 days) in 2002, business was strongly opposed to their additional burdens³² and, finally, the EIS covered the required finance cost for the additional 30 days.

On the other hand, paradoxically, the increase in layoffs caused by firms' restructuring inevitably caused a rapid rise of expenditure on mandatory severance pay. As seen from the previous chapter, in 1998 the ratio of enterprise welfare in overall welfare mix expenditure rose because of the rapid, but temporary, increase in mandatory severance pay. Although the expenditure trends of mandatory enterprise welfare became stabilised from 1999, business asserted its problems again. When the Kim Dae Jung government started to discuss the pension reform plans, business raised the issue of the mandatory severance pay. Employers' agencies argued that mandatory severance pay, which had been regarded as the substitute for pension and unemployment benefits, should be abolished since the NPI and the EIS had already been launched (KEF, 1999; FKI, 1999b). For business, social insurance contributions and severance pay were a dual burden. But labour argued that severance pay had to be understood as a kind of deferred wage and the argument of labour had been legally recognised by the Supreme Court (FKTU, 1999; H.K. Lee, 1999: 32). The arguments of business were not accepted, and the main framework for the mandatory severance pay programme was not altered. Business, instead, called for changes to the enterprise retirement pension plans run by private insurance companies.

Such an argument looked to an enlargement of the welfare market. Whenever the controversy on pension and health reform arose, business argued the necessity of

³² 60 days' paid maternity leave has been one of the mandatory enterprise welfare benefits where employers had to bear the full expenses

privatisation. The FKI called for the introduction of a Medical Saving Account (MSA) to overcome the fundamental problems of NHI (FKI, 2000). And, the FKI, the CFE and the IKER constantly argued for the introduction of the market factor in pension schemes even though details of their arguments were flexible according to the situation, from the occupationally separated pension funds to full privatisation like the Chilean pension reform (J.G. Kim, 2003: 42). Although business's arguments for the privatisation of social insurance were not accepted, there were growing private welfare markets for health and pension insurance. Since the MIP (the NHI from 2000) provided a low level of benefits, private insurance companies developed various commodities like cancer insurance and did their best to expand the private health market through aggressive marketing strategies during the 1990s (B.H. Choi 2001). As a result, according to the calculations by Chang et al (2002), the share of insurance companies' payments of the total national health expenditure increased to almost double between 1990 and 2000, from 4.8 per cent to 8.7 per cent.

On the other hand, the sales of PIPS, which gained an explosive popularity in the earlier period, indicated a fluctuation according to the economic situations. The growth of the PIPS market between 1994 and 1997 was followed by a mass cancellation of PIPS contracts in 1998 and 1999. This phenomenon shows the vulnerability of the income security function, as market provisions in general cannot guarantee long-term stability. Nevertheless, to encourage the depressed private individual pension market, in 2000 the government launched the New Individual Pension Schemes (NIPS) as the substitute for the existing PIPS. The NIPS expanded the tax benefits and lengthened the minimum contribution period, to enhance the long-term income security function (J.W. Lee, 2002). In addition, to strengthen the competition principle, the NIPS allowed the transfer of contracts between financial or insurance companies. Due to the interventions of the government, the sales of private individual pension began to increase again from 2000. In 2001, the accumulated fund was 22.4 trillion won (4.1 per cent of GDP), which was one-quarter of the NPI fund (J.W. Lee, 2002; MOHW, 2002).

Finally, the dominant role of the third sector in social service had hardly changed. Although the Kim Dae Jung government expanded state welfare greatly, it never gave up the strategy for welfare pluralism and the third sector seemed critical within the strategy (Presidential Committee for Quality of Life, Office of the President, 1999, 2002). The government, most of all, accepted the NPOs' argument for reform of the

SWCFRS, legislated in 1997. In 1999, the legislation for the establishment of the Social Welfare Collaborative Fund Raising Conference (SWCFRC) passed the National Assembly, as the substitute legislation for the existing SWCFRS. The new legislation not only strengthened the autonomy of the SWCERC in collecting and distributing procedures, but also admitted 10 per cent of expenses in fund raising (C.H. Kang, 2000). The new legislation was the first trial where the NPOs, which had been under the state's strong supervision and passive in social service policy-making processes, succeeded in changing the policy direction. This was not unrelated to the intensifying importance of NPOs in social services since the Crisis. Along with some CSOs, they actively coped with the newly rising needs, caused by post-industrial pressures and the economic crisis, such as homelessness and family dissolution, domestic and sexual violence and adolescent leaving home.

Summary and Evaluation: the Financial Crisis and the Welfare Politics

Under the Kim Dae Jung government, the institutional conditions for the operation of the dynamics of welfare politics matured. Although the shock of globalisation brought drastic influences on the Korean economy and society, it also paradoxically provided a critical opportunity for the development of Korea's democracy and its welfare state at the same time. The Crisis of 1997 not only led to the regime change from the ruling to the opposition party in terms of the development of political democracy, but it also forced the President-elect Kim Dae Jung to try another experiment in social pact politics to extract policy measures able to cope with the Crisis. Considering the external pressure of globalisation, in this respect, the welfare reforms under the Kim Dae Jung government would challenge the dominant position that globalisation would impose on the policy autonomy of the state in general and restrict welfare state expansion. Instead, under the wave of globalisation, Korea experienced the opposite phenomenon. Sung (2002:511-2) explains the reason for the state welfare expansion as a relative reinforcement of the state's autonomy vis-à-vis labour and business. Under the temporary and exceptional condition of mass unemployment for labour and mass bankruptcy for business, their relative power which had been reinforced since the 'exit' of authoritarian military regimes, weakened severely. For business, the state decided

which firms had to ‘disappear’ and which ones could ‘survive’, through the execution of the conditionality of SAL. For labour, the basic picture was not so different because it executed a *de facto* control over labour through admission or denial of the employment adjustments of firms and through providing support for the unemployed. In conclusion, although other driving forces³³ should not be ignored, basically welfare state development since 1998 is likely to be explained, at least partly, by the state’s reinforced role under the exceptional conditions caused by globalisation.

Even though the government’s dominant role in the welfare politics had hardly changed, the maturing of institutional conditions – the consolidation of political democratisation and the establishment of social pact politics – made it possible for various groups to actively participate in welfare politics under the Kim Dae Jung government. Most of all, labour, which had been excluded from the policy-making processes by previous regimes, made a bright debut as an important actor in welfare politics, through the participation in the Tripartite committee. In addition, based on the growth of civil society since 1987, CSOs also began to play an enthusiastic role in welfare politics. They actively represented the unprivileged who could not mobilise their interest enough (in the public assistance reform), and with the KFTCU and, sometimes, the government, they constructed a reformative coalition against the conservative coalition of business and, sometimes, the FKTU (in the pension reform and the MPI unification).

Along with the emergence of labour in welfare politics, business began to take a different stance from the government’s. As a matter of fact, at least until the Crisis, it had not been necessary for business to take pains to fulfil their interests in policy-making processes directly; for the previous forty years the ruling parties and the governments had always taken the employers’ side although to different extents. In other words, under the crony capitalism – chronic corrupt relationship between political and business circles, business had not had to exercise their ‘agency power’³⁴, because their interests had been structurally connected to those of the political elite. As state welfare, especially social insurance institutions, were expanded under the Kim Dae Jung

³³ For example, rising welfare needs themselves have become the pressure to require state programmes and financial supports. Another important source is the leading role of reformative civil society organisations in social welfare legislation processes. As an example, a civil society organisation, PSPD (People’s Solidarity and Participatory Democracy), dominated the public assistance reforms in 1999.

³⁴ For details about the structural and agency power, please refer to the theoretical work of Gough and Farnsworth (2000).

government, business however worried about the increase to the social insurance contributions schedule as well as the possibility of welfare disease. Business began to exercise its agency power. Employers' agencies called for the mitigation of firms' welfare burden by transferring the cost of welfare from firms to workers and the government, the introduction of the market-principle within the NHI and the NPI and, even looking to the privatisation of social insurance institutions to solve their fundamental problems. Nonetheless, the dominant role of the government in welfare politics should be emphasised. The government's bureaucracy and its research institutes still led policy development and implementation. Most of all, the role of the President should still be considered as critical. When the intra-government conflict between the economic and welfare bureaucracy emerged and the conservative coalition opposed the welfare reforms, the President's decision, based on his pro-welfare attitude, was decisive to the policies implementation. At the same time, it cannot be ignored that he and his government manipulated welfare reforms to overcome a set of political and social crises.

Finally, the path-dependent nature of the welfare reforms, and the welfare mix changes in general, should be indicated. In spite of the rapid expansion of state welfare, the welfare reforms of the Kim Dae Jung government were based on the existing institutional structure, and any radical reform agenda – e.g. MSA in health and the full privatisation or the WB's multi-tiered pension scheme – were not accepted. Although the government spent enormous financial resources to unemployment policies between 1998 and 1999, the principle of a minimised financial burden on the state remained untouched by social insurance institutions. Also, strong familialism and the subsidiarity principle were still maintained in public assistance programmes and social services. In terms of the welfare provisions of non-state sectors, when the government continued to hold the role as a regulator, along with an indirect financial support, features such as the importance of enterprise welfare and the dominance of the third sector in social services had not changed.

7.4. Conclusion

In this chapter, I have argued that the significant changes to the welfare mix during a relatively short period (1987~2002) can be explained by the intermediation and dynamics of the environments, institutions and welfare politics. The political democratisation since 1987 and the Financial Crisis of 1997 can be especially regarded as two historical junctures that led to structural, institutional changes in welfare politics as well as the welfare mix changes. First of all, democratisation since 1987 provided the basic conditions for the working of welfare politics. The ‘on-the-street’ social movements brought about the political democratisation and the dissolution of authoritarianism. Such changes gave the opportunity for the eruption of the labour movement on the one hand, and for the growth of the civil society on the other. These accumulated democratisation processes made possible the first peaceful regime change of 1997 – from the ruling to the opposition party – in Korea. Moreover, as democratisation permeated industrial relations, the state and business began to recognise labour as a social partner. Especially when they were facing ‘militant’ industrial disputes, social pact politics began to be experimented with. Although such experiments with social pact politics came to an end without a fruitful outcome until 1995, the PCIRR between 1996 and 1997 succeeded in gaining consent, for the first time, on the exchange between labour market flexibility and the expansion of basic labour rights. However, the agreements on social welfare were not fully implemented.

It was under the Tripartite committee that the agreed social policy tasks began to be implemented by the government, when the shock of globalisation – the second historical juncture – swept every corner of the country. The financial crisis of 1997 proceeded into a social crisis. The government had to implement two contradictory tasks at the same time; neo-liberal economic policies including labour market flexibility, and an expansion of the social protection system to mitigate the crisis. Especially, the government directly participated in the Tripartite committee and promised to expand the social protection system as compensation for the victims of globalisation. Really, within the confines of the committee, the dynamic of the welfare politics between business, labour and the government was revealed, and many agreements of the committee came into legislation between 1998 and 2000. Whilst the participation of labour and business

in welfare politics was institutionalised by the Tripartite committee under the Kim Dae Jung government, the active welfare movements of CSOs deployed various measures from 'on-the-street' picketing to the construction of a reformative coalition with labour and even the state (pro-welfare Ministries). Such unprecedented actions from CSOs reveal the real dynamics and novelties of welfare politics in Korea. In this respect, the denotation of the power resource mobilisation was not restricted to the traditional class structure in Korea, but to a broader coalition between labour and civil society (and, in some cases, the pro-welfare bureaucracy of the government). However, despite the establishment and the development of a parliamentary democracy, the role of political parties in the welfare politics still remained weak by the end of the Kim Dae Jung government.

Although labour, civil society and business began to actively participate in welfare politics, the government still dominated policy-making processes as the most important actor. The professional bureaucracy and ministries' research institutes dominated the development and implementation of policy. Most of all, as seen from the example of public assistance reform, the President's influence on policy-making processes seemed critical especially when intra-governmental conflict between different ministries emerged. Moreover, the typical modes of state intervention in social welfare were largely maintained. Although there was a rapid expansion in state welfare in terms of direct provision, the dominant type of state intervention was as its role as regulator. For example, the government induced the expansion of enterprise welfare through providing tax benefits for enterprise welfare as well as creating the intra-company welfare fund. In terms of the welfare market, the government took a market-conforming attitude by introducing PIPS in 1994. The government encouraged the private pension market by providing tax exemptions to the interest of PIPS as well as income deductions for PIPS contributions. The government's supervision and financial support were especially critical in the growth of the third sector's social service provisions, even though the relative importance of the third sector in terms of welfare provision remained almost ignorable in the overall welfare mix structure. Taking the case of family, however, the focus seems rather different; family's provision is not so much the subject of discussion in welfare politics than long-term socio-demographic change itself.

As the result of the intermediation and dynamics between the environments, institutions and welfare politics, there were significant changes in the structure of the

welfare mix (see Chapter 6). But, as continuously discussed in the preceding chapters, such changes can be basically featured as path-dependent developments; the institutional legacies of the welfare mix structure formed until 1987 remained strongly influential in the welfare mix changes between 1987 and 2002.

CHAPTER 8. CONCLUSIONS

In this research, I have attempted to analyse the welfare mix changes in Korea between 1987 and 2002, and to explain why such changes happened. The main argument of the research is that there were significant changes in the welfare mix structure during the research period and such changes of the welfare mix can be understood as the results of the intermediations between the structural transformations and the dynamics of welfare politics. Whereas the structural factors related to environments and domestic institutions provided the basic conditions, contexts and constraints for the welfare mix changes, the dynamics of welfare politics shape the actual form of the changes. Most of all, the importance of domestic institutions has been placed at the centre of the discussions on the influence of the different environments. Political democratisation and the social pact institutions have provided to analyse the most fundamental opportunity for the operation of welfare politics. It can be seen that, politics mattered, not only in the development of the welfare state, but also in the welfare mix changes. The role of the state remained vital in managing the national responses to the transforming environments as well as in the welfare mix changes. In reality, the typical modes of state intervention in social welfare were strongly maintained. On the other hand, the welfare mix changes basically followed a path-dependent route, whereby previous institutional legacies have constrained and influenced the development of the welfare mix.

This concluding chapter is organised into three parts. In the following section, I shall summarise the main findings of the research in chronological order and proceed to additional discussion of the path-dependent route of the welfare mix changes. In the second section, I shall rearrange the main explanations and arguments of the research with a variable-by-variable approach. Finally, in the third section I shall suggest the necessity of the welfare mix approach in social policy studies and the direction of future research.

8.1. Summary of Research Findings

The First Period: 1987~1992

During the first period, both external forces and internal pressures were weak. Although most manufacturing markets were open until the end of the 1980s and structurally the Korean economy was highly dependent on international trade, the FDI inflows were low and most capital mobility was restricted by government control. The economic boom and labour shortage in the late 1980s were connected to higher employment stability. Until the early 1990s, Korea's employment structure seemed to indicate a higher level of industrialisation and other internal pressures also remained low. Therefore, it is difficult to say that the environmental factors caused new welfare needs or produced higher pressures for the expansion of welfare expenditures. Rather, internal political situations were more important features to explain the dynamics of the welfare mix at that time. The Political democratisation of 1987 continued with the eruption of militant trade unionism in the late 1980s and also led to the dissolution of political authoritarianism. Nonetheless, labour was mostly excluded from the policy processes and pro-labour political actors had just emerged. The features of the developmental state remained strong and most policy processes were dominated by the state. Basically, the issue of social policy did not rise to the surface in the political discourses in which the interests of various political actors intersected. Most social legislation were introduced to soothe the militant labour movements. The launch of the NPI, the universalisation of the MIP coverage and the introduction of the intra-company welfare fund offered an initially compensative nature. Employers, and the state, willingly accepted the expansion of (voluntary) enterprise welfare not only as a substitute for the rapid wage increases but also as a measure to maintain industrial peace. The state's welfare legislation and the following institutional expansion of state welfare, however, seldom changed the state's low expenditures because it would take long time to initiate expenditures into full-pension benefits and the level of the MI benefits remained low. After all, people's higher dependency on the market within health provisions as well as on the family in social protection were preserved features throughout the first period.

Table 8.1. Summary of Environments, Welfare Politics and Welfare Mix Changes

Period	1987-92	1993-97	1998-2002
I . Environmental Factors			
1.External Forces			
1.1. Economic globalisation	<ul style="list-style-type: none"> • Openness of manufacturing markets • Foreigners' investment to stock market allowed • Low FDI and high control over capital mobility 	<ul style="list-style-type: none"> • Openness of agricultural and financial markets • Most control over capital mobility withdrawn • Low FDI but increasing capital mobility 	<ul style="list-style-type: none"> • Further openness of most domestic markets • Liberalisation of financial market • Great volatility of capital mobility
1.2. Political Pressures from IGOs	<ul style="list-style-type: none"> • Low 	<ul style="list-style-type: none"> • Rising: OECD's social standards requirements 	<ul style="list-style-type: none"> • High: Policy agreements & consultation with IMF, IBRD and WB
2. Internal Pressures			
2.1. Employment Structure	<ul style="list-style-type: none"> • Higher proportion of regular employment but decreasing industry employment • Women's participation rate (WPR) remained static 	<ul style="list-style-type: none"> • Decreasing industry and regular employment • Increasing WPR. 	<ul style="list-style-type: none"> • A sudden drop and not recovered in both industry and regular employment • A sudden drop of WPR but recovered until 2001
2.2. Ageing	<ul style="list-style-type: none"> • Low (5.1%, 1990) 	<ul style="list-style-type: none"> • Low (5.9%, 1995) 	<ul style="list-style-type: none"> • Moderate (7.2%, 2000)
2.3. Household Structure	<ul style="list-style-type: none"> • Low divorce rate (11.4%), AHM 3.7 and SH 9.0% in 1990 	<ul style="list-style-type: none"> • Increasing divorce rate (17.1%), AHM 3.3 and SH 12.7% in 1995 	<ul style="list-style-type: none"> • High divorce rate (35.9%), AHM 3.1 and SH 15.5% in 2000.
II . Welfare Politics			
1.Institutional Change			
1.1. Political Democratisation	<ul style="list-style-type: none"> • Establishment of parliamentary democracy • Dissolution of authoritarianism and militant labour movement 	<ul style="list-style-type: none"> • Emergence of 'Civilian government' • Growth of civil society 	<ul style="list-style-type: none"> • First regime change from ruling to opposition party • Maturity of civil society
1.2. Social Pact Politics	<ul style="list-style-type: none"> • NESC between FKTU and KEF: making policy suggestion to government 	<ul style="list-style-type: none"> • WAC ('93-4) between FKTU and KEF: consent on wage, enterprise welfare and social policy • PCIRR ('96-7) among FKTU, KCDTU, KEF and FKI: exchange labour and capital (labour market flexibility ↔ labour rights and social welfare) 	<ul style="list-style-type: none"> • Tripartite committee among labour, capital and government: social consent on the exchange between immediate labour market flexibility and the expansion of social welfare along with enhancement of labour rights

Table 8.1. – Continue

Period	1987-92	1993-97	1998-2002
2. Main Actors of Welfare Politics			
2.1. Government	Dominant	Dominant	Dominant
2.2. Business	Moderate	Moderate	Strong
2.3. Labour	Excluded ¹	Growing	Strong
2.4. CSOs	Emerging	Weak	Strong
2.5. Political Parties	Weak	Weak	Weak
2.6. Interest Groups	N.A.	N.A.	Emerging
III. Major Welfare Mix Changes			
1. Quantitative (Expenditure) Changes			
1.1. State	• Static (3.2% of GDP)	• Increasing (3.3→4.3%)	• Rapid increase to 6.9% ('99) and then 6.1% ('01)
1.2. Enterprise	• Increasing between 1990 and 1992 (3.0→3.9%)	• Slightly increased (3.8→4.4%)	• Rapid increase and fluctuations (6.7~4.6%)
1.3. Market	• Static (2.9~3.0% of GDP)	• Static (3.0~2.8%)	• Slightly increasing, variation range is 2.7~3.1%
1.4. Third Sector	• Very low (0.1% of GDP)	• Very low (0.1% of GDP)	• Very low (0.1% of GDP)
1.5. Family	• Static (3.7~3.9% of GDP)	• Slightly decreasing, variation range is 3.1~3.5%	• Decreased to 2.7% of GDP in 2001
2. Institutional and qualitative Changes			
3.1. State Welfare	• Launch of NPI • Universal coverage MIP	• Launch of EIS • NPI coverage expansion	• Public assistance reform • Universal coverage of social insurances • Health reform (MIP→NHI)
3.2. Enterprise Welfare	• In-plant welfare fund • Rapid wage increase →Enterprise welfare, esp. voluntary welfare rapidly increased and diversified	• Expansion instead of wage restriction, but vol.welfare decreasing slightly; →rise of inequality	• Extension of paid maternity leave • Rapid increase and fluctuation of mand welfare but static vol. welfare →higher inequality
3.3. Welfare Market	• Private health insurance	• PIPS ('94) and growing PIPS market • Growing private health insurance market • Permission of commercial elderly services	• PIPS→NIPS and fluctuation of market • Growing private health insurance market • Growing 'silver' industry
3.4. Third Sector	• Accommodation institution →Social service facilities (community welfare centres)	• SWCFRS • Growing social service facilities	• SWCFRS→SWCFRC • Emerging social services for newly rising needs
3.5. Family	• Strong family in income maintenance, services and caring	• Decreasing slowly but still important family	• Decreasing but still important; 49% of elderly live with adult children in 2000

¹Only FKTU included in welfare politics but the participation of the central agency of the democratic trade union camp (the NCTU (1990-93) and NCTUR(1993-95)) was denied until 1996 when the KCDTU was recognised as a legal agency

The Second Period: 1993~1997

It was during the second period (1993~1997) that the environmental factors began to influence Korean society in general and the dynamics of the welfare mix specifically. According to the Uruguay Round, Korea had to decide to open most of its agricultural markets. This caused severe resistances from farmers and finally led not only to the new state support to the agricultural industry but also the extension of NPI coverage to the rural self-employed in 1995. In a similar way to the previous coverage extension of social insurance institutions in the late 1980s, it was basically executed on the basis of compensation. Economic globalisation during the second period intensified in the financial market. As most regulations over international capital flows were withdrawn including the liberalisation of the short-term capital mobility, Korea's financial market became more integrated with the international financial market and, therefore, revealed higher capital mobility. Such trends were directly related to the *Saegyewha* (globalisation) policy orientation of the Civilian government launched in 1993. In addition, internal pressures began to be visible during the period. Whilst the women's participation rate (WPR) increased slowly but continuously, the share of both industry and regular employment decreased in the overall employment figures and paid employment respectively. The ageing problem began to be indicated as a long-term pressure and burden on pension expenditures, and social problems related to family dissolutions emerged as increasing needs for social services.

Along with those environmental factors, the maturing of political democracy and the experiments with social pact politics provided opportunities for social policy issues to emerge on the policy agenda in the domestic political domain. Although the state still dominated social policy making processes, labour and a growing civil society began to participate in the formal social policy making processes. Labour wanted higher standards in basic labour rights. Moreover, they were joined by IGOs like the ILO who put more pressures on the government as Korea joined the OECD. On the other hand, the state and business argued the necessity of labour market flexibility to reinforce international competitiveness. After all, they agreed to an exchange between labour market flexibility and higher basic labour rights with a reinforcement of the social security system. To this end, the EIS was launched in 1995 but its initial purpose was due to economic concerns to support restructuring and labour market flexibility, rather

than because of the social security concerns of workers.

Most of all, since the Kim Young Sam government revealed its business-friendly nature, the slogan of the so-called 'Saegyewha' (globalisation) was also manipulated as logic for the expansion of private markets. The PIPS, introduced to support the government's RFTS implementation, and private health insurance markets grew rapidly during the second period. Such expansion of the health and individual pension insurance markets was also the product of the business' lobbying of the state. In the case of enterprise welfare, albeit its expenditures increased slightly, the structure of inequality rose especially in voluntary types, under a situation of the emphasis on firms' international competitiveness. Although social service needs increased, on the other hand, the state still maintained its traditional 'third sector utilising model', rather than chose an expansion of the state's social service programmes. Accordingly, state intervention in social services remained low according to the 'subsidiarity' principle based on strong familialism. This was also related to the decreasing but still important role of the family in the welfare mix.

The Third Period: 1998~2002

During the third period, the impacts of globalisation and internal pressures reached a peak. The financial crisis of 1997 caused the government to ask for emergency loans from IGOs like the IMF and the WB. Through the IMF standby agreement and the SAL agreement with the WB, the Korean government lost a substantial part of its policy autonomy. A set of liberalisation policies that the IMF required Korea to implement led to a higher global integration of the Korean economy. Korea experienced massive foreign capital inflows and great volatility due to enhanced capital mobility. At the same time, the socio-economic shocks caused by the financial crisis made the internal pressures intensify. When the massive unemployment was concentrated in the industry sector, there was a sudden drop of employment in both industry and regular employment. The overall instability of Korean society caused a rapid increase in the divorce rate and homelessness. Moreover, the long-term pressures related to demographics and household structure began to be realised. The impacts of all these factors were evident; augmenting welfare needs but with a limited state financial

capability.

Here, the choice, between an expansion of state's intervention in social welfare to cope with the increasing needs and a reduction of state welfare to retain its fiscal austerity, seemed to depend on national politics. Although the state still held its dominant position in the social policy making process, the Kim Dae Jung government sought to extract a social consent on the solution to overcome the crisis through the Tripartite committee. Labour as well as business emerged as important actors in welfare politics, and the voice of CSOs had an influence on the welfare reforms, based on the growth of civil society. As various actors participated in the social policy making process under the conditions of the maturing political democratisation, the policy choices produced within national welfare politics converged on a higher level of state intervention rather than an austerity orientation. This seemed inevitable because the IMF and the WB strongly required the reinforcement of labour market flexibility up to the so-called 'global standard' and, in order to follow such a direction, the government had to provide equivalent compensation for workers' sacrifices – i.e., the expansion of the social security system. To deal with the problem of massive unemployment, the government accepted the implementation of a deficit public finance and received concessions on it from the IMF. In a sense, the shock of globalisation provided favourable conditions for, rather than restrictions to, an expansion of the state welfare in Korea. The results were straightforward; there were massive welfare reforms between 1998 and 2000 including the extension to universal coverage for all social insurances, public assistance and health reforms. The expenditures of the state on social protection and health increased rapidly.

However, the dynamics of the welfare mix caused by such environmental factors did not remain within the state sector. The mass unemployment brought an unprecedented leap in the enterprise welfare expenditure on mandatory severance pay, but the sudden increase in the mandatory enterprise welfare led to a decrease in voluntary enterprise welfare. Moreover, as irregular type and service employment – usually receiving a low level of enterprise welfare – increased, the inequality of enterprise welfare in general was nurtured according to workers' employment status as well as the payment capability of firms. At the same time, the instability of income caused by the crisis was connected to a massive cancellation of PIPS. It may indicate how fragile the market provisions are in a situation of socio-economic crisis.

Nevertheless, the importance of private markets did not seem to be damaged in the overall welfare mix. Private health insurance markets grew and the commercial sector began to enter social services and caring markets positively. The expenditures of the market sector during the third period actually increased somewhat.

Another sector that revealed a significant change was the third sector. The voice of civil society that was arguing the necessity of an improvement in Korea's social security system could gain clear legitimacy in the situation of the crisis. Since then major CSOs have enlarged their voices and roles in social policy making processes. In terms of social services, despite its trivial expenditures, the role of the third sector was expanded with new initiatives. Some pioneering CSOs and NPOs began to provide experimental social services dealing with the newly rising needs, and some of them were spread to be nation-wide social services.

Lastly, the reduced income during the economic crisis and the increasing pressures concerning the changes in household structure seemed to reduce the capability of the family in providing welfare goods and services. Nonetheless, the family still remained important in terms of both private income transfers and informal services/caring. Private income transfers are still more important than public ones, and especially among the elderly, the income support of their adult children was their most important income source. The gross expenditure of private income transfers has been estimated to be as much as that of the market sector on average during the period. In 2000, still almost half of the elderly over 65 were living with their adult children and another quarter of them resided in the local neighbourhood area.

Dynamic but Path-dependent Development of Welfare Mix Changes

Considering all the periods between 1987 and 2002, there were significant changes in the welfare mix. By 1987, state interventions in social welfare had been thoroughly subordinated to the political and economic logics of the regimes. Under the authoritarian regimes, the basic principles of social policy were that state welfare programmes should not have hindered the nation's supreme goal, economic development, but state welfare programmes were only considered in order to gain their political legitimacy. So, the scope of state intervention was very restricted and the

state's financial burden had to remain at a minimal level. Really, whereas the state put an emphasis on family responsibility as seen from the subsidiarity principle retained in public assistance and statutory social services, it was very hesitant to take the role as a direct financer and provider. Instead, as a regulator, the state positively utilised non-state sectors in social welfare provision – it entrusted NPOs to take the responsibility for the care of the needy in social service delivery, enterprise welfare programmes were introduced and developed by various state's interventions as a *de facto* substitute for the residual state welfare. Therefore, for the vast majority of people, either the family or their own payment ability in the market was their main welfare source. The institutional legacies of the welfare mix structure formed until 1987 can be summarised as 'a residual state welfare with a minimised financial burden; a growing market sector despite underdeveloped welfare markets; an entrusted and subordinated third sector in social service provisions; for workers, enterprise welfare as *de facto* substitutes for the residual state welfare; and pervasive family provision as the primary welfare source for the vast majority of people'.

In a sense, there was evidence that the welfare mix changes between 1987 and 2002 could be distinguished from its previous features. Firstly, we have discovered that the expenditure structure of the welfare mix has transformed, from a genuinely mixed structure incorporating the state, market, enterprise and the family sector, to a public led model dominated by the state and mandatory enterprise welfare. Really, as seen from other empirical data and institutional features, the state's commitment and interventions in social welfare were greatly expanded and the relative importance of enterprise welfare increased significantly. The official coverage of social insurances had been universalised by 2000 and the public assistance reform of 1999 established the entitlement of public assistance benefits as a social right. Whereas voluntary enterprise welfare had been expanded rapidly by the mid-1990s, there were not only massive expansions of mandatory enterprise welfare benefits, as the *de facto* substitute for the scarce public benefits, but also severe fluctuations between 1997 and 2000. On the other hand, there were other important changes worthy of mention. Welfare markets emerged and/or grew substantially in health, pension and some social services. The third sector began to experiment with a pioneering role in new social services and its advocacy role emerged and grew in social policy making processes, even though its size and relative importance in social welfare provision still remained marginal. On the other hand,

accompanied by the transformation of demographics and household structure, the capability and actual welfare provision of the family declined.

As historical institutionalists emphasise the path-dependent changes of institutions and their non-intended outcomes (Hall, 1993; Hall and Taylor, 1996; Krasner, 1984, 1988), however, *the institutional legacies formed until 1987 and the typical types of state interventions in social welfare strongly remained in the welfare mix changes*. First of all, there is abundant empirical evidence supporting the idea that *the route of the welfare mix changes in Korea followed a path-dependent route*. The universalisation of social insurance coverage was the result of an incremental expansion processes basically within the existing institutional settings, but the radical reform proposals based on neo-liberal ideology in health and pensions had not been realised. Based on the strong familialism, the subsidiarity principle, where the state intervenes only when the function of the family fails, largely remained in public assistance and statutory social service systems. The market dominance of health expenditure structure had not been changed much, nor had any fundamental proposal to reform its structure been implemented by 2002. In enterprise welfare, the nature of the *de facto* substitute for the state welfare was maintained and even strengthened especially when the financial crisis revealed the frailty of the state welfare system in coping with mass unemployment. In social services, the basic features and the relationship between the third sector and the state (the collective-vendor model) had not changed; rather, the government utilised the third sector more and more to deal with the newly rising welfare needs.

Closely related to the path-dependent development of the welfare mix, the typical modes of state intervention in social welfare were also largely maintained in the welfare mix changes. Most of all, traditionally the state was very hesitant to expand its role as a direct provider and/or financier. State interventions as a direct provider were largely restricted to the public income maintenance system (social insurances and public assistance programmes). Although the state expanded its role as a direct provider by expanding the compulsory coverage of social insurance, the state's financial support for social insurance was always marginal and the public assistance benefit recipients as well as most of statutory social services were narrowly targeted by the subsidiarity principle based on the strong familialism. Instead, *the state encouraged or mandated the social welfare provisions of non-state sectors through various interventions*. In other words,

*the role of the state in finance and regulation was vital in the welfare provisions of non-state sectors. The state traditionally entrusted its responsibility for providing social services to NPOs, and utilised the third sector more and more to deal with newly rising needs. Related to the strong familialism, the state never forgot to put an emphasis on the role of the family as the primary welfare provider, and supported the family through indirect tax benefits. The state legislated for mandatory enterprise welfare programmes to be the *de facto* substitute or complements to the scarce state welfare. Moreover, in some cases, such interventions produced non-intended outcomes at a historical juncture. During the period of the 'Crisis', the previous legislations on the mandatory severance pay led the sudden, rapid increase in the mandatory enterprise welfare expenditure, and it overwhelmed the decrease in voluntary enterprise welfare expenditure, when Korea faced mass unemployment. Similarly, despite the general trend of growing welfare markets, there were also massive cancellations of PIPS during the severe economic recession following by the Financial Crisis. These phenomena seem to be opposite to the general expectation that higher external forces would cause an increase of market provisions and a decrease of enterprise welfare. So we can conclude that *historical institutionalism provides a useful analytical tool in explaining not only the different routes of the welfare state development or adaptations, but also the path dependent development of welfare mix changes and their non-intended outcomes.**

8.2. Explanations of Welfare Mix Changes: Welfare Mix as a Dependent Variable

Now, I turn to an explanation of the welfare mix changes. Since I have already dealt with the institutional legacies above, I mainly focus on the influences of environments on the one hand, and political variables on the other, to rearrange the main explanations and arguments of the research. In addition, I shall emphasise the welfare mix approach as a dependent variable, which makes up a core part of the research originality.

Environments and Welfare Mix Changes

So far, the research has argued that the fast transformations of external and internal environments in Korea has provided the basic conditions for welfare mix changes. The main arguments on the impacts of the environments are two-fold as follows.

External Forces and Welfare Mix. *The impacts of globalisation (external forces) were positive in state welfare, welfare markets, mandatory enterprise welfare and third sector provisions, but negative in voluntary enterprise welfare and with no evident effects in the family sector.* Most of all, opposite to the ‘social dumping’ hypothesis that external forces would compel nation states to implement neo-liberal welfare reforms and shrink welfare state programmes (McKenzie and Lee, 1991; Cerny, 1996; Mishra, 1999; Strange, 1996), the impacts of globalisation on state welfare seem positive in Korea. The NPI coverage, for example, was expanded to the rural self-employed as a compensation for the opening of the agricultural markets. The welfare reforms since the Financial Crisis were the reforms far from the usual neo-liberal prescriptions that the World Bank and IMF required. Rather, the IBRD and the World Bank called for the Korean government to construct an appropriate social safety net to support the restructuring, and the social crisis caused by the shock of globalisation had to be mitigated. So, as far as the social welfare institutions were concerned, the Korean case is much more likely to support the ‘*compensation*’ or ‘*upward mobility*’ hypothesis (GS+), originated by such scholars as Cameron (1978), Katzenstein (1985), Rodrik (1998) and Rieger and Leibfried (2003).

The positive impacts of globalisation can be also found in the market and third sector. Although the expenditure level of private markets in social protection and health remained static between 1990 and 2001, there were clear institutional expansions of the commercial market in the overall welfare mix structure, as seen from the introduction and expansion of PIPS as well as rising high quality in the social service market for the well-off elderly. These trends suggest that, as the ‘*marketisation of welfare*’ hypothesis (GM+) indicates, the logic of marketisation became pervasive under the general emphasis on the globalisation (e.g. the slogan of ‘*Saegyewha*’) and penetrated social welfare domains. In addition, when the shock of globalisation, i.e., the financial crisis, brought about massive socio-economic disasters, as the ‘*resistance and compromise*’

hypothesis (GT+) suggests, the advocacy role of the third sector has been greatly expanded as well as some third sector organisations have pioneered new social services to meet the needs of new kinds of social problems. In the case of enterprise welfare and the family sector, the impacts of external forces are either too complex or vague to assume a single direction. In a sense, the importance of enterprise welfare increased in the overall welfare mix, especially when the massive unemployment during the crisis led to a sudden and rapid increase in mandatory severance pay-outs. However, this was also accompanied with a decrease in voluntary enterprise welfare during the same period. The reasoning seems straightforward; as the '*labour cost competitiveness hypothesis (GE-)*' demonstrates, for business, the motivations for providing voluntary enterprise welfare benefits faded and, instead, labour cost competitiveness started to gain importance under the name of the international competitiveness of firms in the global economy. Finally, we could not find clear evidence on the connection between external forces and family provision. The impacts of environments on the family sector, people's micro behaviours, seem more long-term one, rather than an instant effect is expected.

Internal Pressures and Welfare Mix. *The influences of internal pressures were also positive in state welfare, welfare markets and third sector provisions, but negative in enterprise welfare as well as the family sector.* In Korea, the internal pressures between 1987 and 2002 could be understood by the transformation processes from an industrial to a post-industrial society. Despite the fast speed of the transformation, it should be noted that basically the impact of the internal pressures were slow-moving, long-term effects, and there is a considerable 'time-lag' between the changes of policy environments and actual policy making and implementation. The Korean economy still heavily depends on the manufacturing industry. The ageing pressure is not likely to be condensed even in the near future. So, as far as their influences were concerned in terms of rising welfare needs, the internal pressures of Korea were mainly related to the typical features of industrialisation and urbanisation. Nonetheless, it is also very difficult to deny that a substantial part of the post-industrial pressures, the transformation of household structure, higher women's participation and family dissolution, were closely connected to the higher involvement of the state in social welfare in general (the '*newly rising and diverse needs hypothesis (IS+)*', and

specifically the expansion of social services, which were mainly provided by the third sector (the '*expansion of civil society*' hypothesis (IT+)) and, to a lesser extent, market providers (the '*expansion of service market*' hypothesis (IM+)). However, the impacts of internal pressures on the family and enterprise welfare were negative. As the '*less capacity family*' hypothesis (IF-) suggests, the declining capability of family provision should be recognised as long-term socio-demographic changes *per se*. For firms, the irregular type of employment was preferred more than before on the basis of labour cost, in terms of both wage and non-wage labour costs. Along with the decreasing employment in industry, the increasing irregular employment led to an overall stagnation of voluntary enterprise welfare.

Trap of Functionalism. Although the findings and arguments of the research contribute to widening the scope of recognition of the impacts of environments to the overall welfare mix, from a narrowly defined 'welfare state', the serious weaknesses of such explanations must be identified. First of all, the impacts of external and internal environments are interwoven and it is very difficult to divide them from each other. Especially, the timing that the internal pressures began to be palpable coincided with the onset of the financial crisis in Korea. Moreover, inevitably, *the trap of functionalism is embedded in the explanations emphasising causal relationships between the environmental structure and welfare mix changes*. They say nothing about the processes of the welfare mix changes, nor about the various routes of adaptation. As many have argued, the impacts of both external and internal environments on the welfare state are by no means uniform, nor general: but they are diverse according to political institutions, domestic politics and institutional legacies (Garrett, 1998; Swank, 2002; Iversen and Wren, 1998; Pierson, 2000b). The research argues that the same can be adapted to the overall welfare mix. Therefore, I believe, *the functionalistic explanations discussed so far should remain as hypothesised arguments*. Instead, we must bring the politics as well as institutions into the explanation of welfare mix changes.

Political Institutions, Welfare Politics and Welfare Mix Changes

The research has argued that, in conjunction with external and internal shifts, *political*

variables like political institutions and national politics can explain better not only welfare state development, but also welfare mix changes in general. The political democratisation since 1987 led to the dissolution of authoritarianism, the eruption of the labour movement, the growth of the civil society, and the first peaceful regime change of 1997 – from the ruling to the opposition party – in Korea. When the state and business faced the ‘militant’ industrial disputes, social pact politics began to be experimented with and began to recognise labour as a negotiating partner. Really, not only the political democratisation *per se* became the necessary condition for the welfare state development (e.g. Marshall, 1972 and Linz and Stephen, 1996), but it also provided a critical opportunity to construct the social pact mechanism (e.g. Lehmbruch, 1979 and Katzenstein, 1984). Especially, as Rhodes (2001) indicates the ‘New Corporatism’ in many countries of Europe since the 1980s, the Tripartite Committee was launched as another critical social pact experiment when Korea faced the economic and social crisis in 1997/8 as a historical juncture. Really, within boundaries of the committee, the dynamic of welfare politics between business, labour and the government was revealed, and many agreements of the committee regarding the social welfare reforms were made into legislation between 1998 and 2000. In this respect, *the Korean case can strongly support the position that the influences of external and internal environments are mediated according to political institutions and national politics.* At the expense of neo-liberal economic policies and labour market flexibility, the government chose to expand the social protection system for the victims of globalisation (Rieger and Leibfried, 2003), especially dealt within social pact politics. In this situation, the Korean government re-negotiated its level of fiscal deficit with the IMF to deal with the mass unemployment and other social crises. In social insurance, in a similar context, the radical neo-liberal reform proposals of the World Bank and the IMF (e.g., privatisation of NPI and introduction of MSA) could not be accepted.

Whilst the participation of labour and business in welfare politics was institutionalised by the Tripartite committee under the Kim Dae Jung government, the CSOs’ welfare movement deployed various measures from ‘on-the-street’ picketing to the construction of a reformative coalition. Such unprecedented actions by CSOs revealed the real dynamics and novelty of the welfare politics in Korea. Compared with the power mobilisation theory based on the traditional class structure (Castles, 1978; Korpi, 1983; Esping-Andersen, 1985), the scope of the (pro-welfare) reformative

coalition was much broader in Korea, and in a sense CSOs dominated the welfare reform processes and labour followed them. Despite the establishment of a parliamentary democracy, however, the role of political parties in welfare politics (partisan politics) was very weak. So, the politics of civil society and social pacts, rather than partisan politics, were the dominant modes of national politics in Korea.

The importance of the political institutions and welfare politics was not restricted to state welfare, but can be widened to explanations of welfare provisions within non-state sectors. The dissolution of the political authoritarianism accompanied by political democratisation, first of all, enabled business to exercise its agency power in welfare politics, especially in the areas of the mandatory enterprise welfare and private insurance markets. Business lobbied for the introduction of a private individual pension market as well as for-profit, high quality welfare service markets targeting to the well-off elderly. The Kim Young Sam government did not hesitate to implement market confirming social policies. However, the proposal for the privatisation of IAICI could have not been implemented by the end of the Kim Young Sam government as it faced labour's severe resistance and the financial crisis had swept the whole country. In addition, enterprise welfare was another crucial part where the interests of political actors confronted each other. As discussed above, the political democratisation since 1987 brought the 'Great Struggle of Labour' in the late 1980s. To maintain stable industrial relations, business had to provide not only high increases in real wages but also a substantial level of enterprise welfare on the table for collective bargaining. On the other hand, political democratisation brought about the growth of civil society in general. As discussed above, CSOs actively participated in welfare politics through their voice mechanism. Moreover, the third sector expanded its experimental role in social services when the newly rising social service needs emerged. However, this was possible on the basis of the state's critical intervention in regulation and finance, when the government adhered to its position on the 'utilisation of the third sector' to deal with such problems instead of expanding the public social service delivery system. To sum up, we can conclude that, in Korea, *national politics mattered not only in welfare state development but also in the overall welfare mix changes and, most of all, political institutions provided the basic conditions for the working of welfare politics.*

Welfare Mix as a Dependent Variable

The research has shown that, despite recent rapid expansion of state welfare, the social welfare system as an arrangement of institutions meeting welfare needs of people has always been mixed in Korea. In so doing, the research suggests that the welfare mix is a more suitable term than the welfare state when one focuses on the overall social welfare of a nation. The real originality of the research is utilising the welfare mix as the *dependent* variable, and to explain welfare mix changes in Korea using the independent variables that contemporary welfare state theories have suggested. The research, in this respect, can be understood as *an attempt to build a theoretical bridge between the welfare mix approach and contemporary explanations of the development and adaptation of the welfare state*. On the one hand, theories of the welfare state have failed to grasp the variety of institutional arrangements meeting welfare needs; on the other hand, existing welfare mix models are either descriptive or normative, and most of them have failed, or have not sought, to provide an analytical framework to explain the dynamic nature of the welfare mix. Based on the analysis of the Korean case, I believe, the research has provided the following contributions to knowledge on the welfare mix.

By utilising the welfare mix as its dependent variable, the research shows that this can be measured and tracked over time. The welfare mix structure and its development then needs to be explained. Adapting the welfare mix approach to the analytical framework of contemporary welfare state theories, it has discovered that *current theoretical arguments about the welfare state can be applied to the explanation of welfare mix changes*. The arguments about the impacts of external and internal environments are not exclusive to welfare state adaptations; they also can affect the development of the welfare provisions of non-state sectors. Politics matters not only in welfare state development, but also in the explanation of the broader welfare mix changes and their dynamic processes. Path-dependency is not restricted to welfare state development; the welfare mix structure at a point of time can be seen as the institutional legacies that shape its incremental changes afterwards. More significant inequality issues among different classes, groups and genders are embedded in the institutional features of the welfare mix. In addition, the research has asserted that the changing role of the state is vital in the explanation of the overall welfare mix structure. Not only is the state one of the most important providers in the production of welfare, but also its

intervention in regulation and finance fundamentally influences the welfare provisions of non-state sectors.

8.3. Suggestions for Future Research

The research, I believe, has presented the viability and the necessity of the welfare mix approach in social policy research. Even though these findings are based on the Korean case, their implications for social policy research are enough to be emphasised – i.e., the importance of the welfare mix approach in social policy study. In this last section, I conclude my discussions of the research with a few suggestions for the future research.

First, beyond the normative approaches of existing welfare mix models, we can raise new research agendas about how different welfare regimes have different welfare mixes and how different welfare mixes cause different welfare outcomes. In this respect, I believe, international comparative studies of welfare mix structure would provide an immense aid to our understanding of different welfare models or regimes.

Secondly, the research has focused on the welfare mix as a dependent variable, but such issues as inequality, social exclusion and poverty were not the main concerns in the research. Related to welfare outcomes, in this respect, more systemic research on the relationship between welfare mix structure and those traditional social policy issues is required. For example, the different components of welfare mix produce different dimensions of inequality. Whereas market provisions are closely related to income inequality, enterprise welfare with employment status, third sector provisions among different memberships (religion, ethnic, sexual orientation and so on) and informal caring raises the issue of gender inequality.

Thirdly, despite the primary importance of the structure of welfare provision, we need to focus more on the finance and regulation structure of welfare mix. As I argued, state interventions in regulation and finance are vital in the welfare provisions of non-state sectors. In so doing, we may widen our understanding of the role of the state in social welfare.

Appendix 1. Tables of Economic Globalisation and Post-industrialisation

1. Tables of Economic Globalisation Indicators

Appendix Table 1-1. Relative share of the world market for manufactured goods

	Exports		Imports	
	1980	1990	1980	1990
Industrialised world (24 countries)	62.9	72.4	67.9	72.1
Of which G7	45.2	51.8	48.2	51.9
– the Triad	54.8	64.0	59.5	63.8
Developing world (147 countries)	37.1	27.6	32.1	27.9
Of which, group ‘stars’ (11 countries)	7.3	14.6	8.8	13.5
– group 1: the poorest (102 countries)	7.9	1.4	9.0	4.9
Total	100	100	100	100

Source: Petrella, 1996: 79

Appendix Table 1-2. Distribution of World Population, FDI flows and Trade (%)

	Population (1996)	Inward FDI (1991-1996 ^a)	Trade (exports only)	
			Including Intra-EU	Excluding Intra-EU
Total (%)	100.0	100.0	100.0	100.0
A				
USA and Canada	5.1	21.8	15.7	21.0
Western Europe	7.2	36.2	42.5	23.4
Japan	2.2	2.0	7.8	10.4
Total	14.5	60.0	66.0	54.8
B				
Ten most important developing countries ^b	31.9	24.0 ^c	12.2	16.2
A+B	46.4	84.0	81.5	71.0

^a 1996 estimates

^b In terms of inward FDI flows between 1991 and 1996. Argentina, Brazil, China, Hungary, Indonesia, Malaysia, Mexico, Poland, Singapore and Thailand.

^c 73% of all non-triad (or developing world) flows

Sources: modified from Hirst and Thompson, 1999: Table 3.2 and 3.3.

2. Tables for Post-Industrialisation Indicators

Appendix Table 1-3. Transformation of Employment Structure

(per cent of aged between 15-64)

A. Industry Employment Rate ^a								
	Germany	France	Italy	Japan	Sweden	UK	USA	OECD18
1970	33.4	25.2	22.0	25.2	28.1	31.2	21.3	25.3
1980	28.4	22.3	21.1	24.8	25.6	26.1	20.1	22.5
1990	25.3	17.5	17.4	24.7	23.4	23.0	18.9	19.9
1997	23.1	14.7	16.1	24.9	17.9	18.6	17.6	17.8

B. Production and Production-related Service Employment Rate ^b								
	Germany	France	Italy	Japan	Sweden	UK	USA	OECD18
1970	-	41.1	-	44.2	42.8	41.6	32.0	41.3
1980	39.5	36.2	33.0	40.7	40.9	37.4	31.7	37.1
1990	36.7	31.9	27.6	40.3	38.6	37.1	33.0	34.8
1997	35.3	28.8	27.1	40.3	33.7	34.8	32.2	33.5

C. Consumer-related Services Employment Rate ^c								
	Germany	France	Italy	Japan	Sweden	UK	USA	OECD18
1970	-	23.2	-	26.9	30.4	28.1	29.9	25.9
1980	25.5	25.9	21.7	29.5	38.5	31.9	34.2	28.5
1990	27.0	28.1	26.7	31.9	42.0	33.7	39.2	32.4
1997	28.1	29.5	24.0	34.7	37.1	35.2	41.7	33.6

^a Employment ISIC 2-5 as % of population between 15 and 64 years. ISIC 2: mining and quarrying; ISIC 3: manufacturing; ISIC 4: electricity, gas and water; ISIC 5: construction

^b Employment ISIC 1-5+7+8 as % of population between 15 and 64 years. ISIC 1: agriculture, hunting, forestry and fishing; ISIC 2-5: see above note a; ISIC 7: transport, storage and communication; ISIC 8: financing, insurance, real estate and business services.

^c Employment ISIC 6+9 as % of population between 15 and 64 years. ISIC 6: wholesale and retail trade, restaurants and hotels; ISIC 9: community, social and personal services.

^d Data from 1990 and 1997 estimated

Sources: reconstructed from Scharpf and Schmidt, 2000: Table A8, A9 and A10.

Appendix Table 1-4. Ageing Population

(per cent of aged 65 and over)

	Germany	France	Italy	Japan	Sweden	UK	USA	Average
1960	10.8	11.6	9.3	5.7	11.8	11.7	9.2	10.1
1980	15.5	13.9	13.1	9.1	16.3	15.0	11.2	13.4
2000	16.4	16.0	18.1	17.2	17.4	15.8	12.3	16.2
2020	22.5	20.5	23.9	27.9	23.9	20.2	16.3	22.2
2040	30.9	26.2	34.5	34.1	29.9	27.2	21.0	29.1

Source: NSO, 2002 [<http://kosis.nso.go.kr/cgi-bin>]; UN, 2002 [<http://esa.un.org/unpp>].

Appendix Table 1-5. Women's Labour Force Participation Rate

	Germany	France	Italy	Japan	Sweden	UK	USA	OECD18
1970	48.1	49.8	29.1	55.4	60.6	53.5	50.4	49.6
1980	52.8	56.0	39.2	54.9	76.0	61.3	61.5	57.4
1990	57.0	57.6	44.5	60.4	83.3	68.1	69.7	62.9
1997	61.8	60.4	44.1	63.8	76.7	68.9	72.5	64.0

Sources: modified from Scharpf and Schmidt, 2000: Table A12 and A13.

Appendix Table 1-6. Total Fertility Rate

	Germany	France	Italy	Japan	Sweden	UK	USA	Average
1961-65	2.5	2.9	2.5	2.0	2.3	2.8	3.3	2.8
1971-75	1.6	2.3	2.3	2.1	1.9	2.5	2.0	2.4
1981-85	1.5	1.9	1.5	1.8	1.6	1.8	1.8	1.9
1991-95	1.3	1.7	1.3	1.5	2.0	1.8	2.1	1.7

Source: UN, [<http://esa.un.org/unpp>].

Appendix Table 1-7. Divorce Rate^a

	Germany	France	Italy	Japan	Sweden	UK	USA	Average
1960	-	9.4	-	8.0	17.9	6.4	25.8	13.5
1970	-	10.2	4.2 ^b	9.3	29.9	13.2	32.8	16.6
1980	-	24.3	3.7	18.3	52.9	37.3	49.7	31.0
1990	-	36.9	8.9	21.8	47.9	44.1	48.0	34.6
1995	39.4	46.1	9.6 ^c	25.1	67.0	52.6	50.0	41.4

^a (number of divorce)/(number of marriage)*100.

^b 1971, ^c 1994

Source: Own calculation from NSO, [<http://kosis.nso.go.kr/cgi-bin>].

Appendix 2. Impacts of Globalisation and Post-Industrialisation on the Welfare Mix: Constructing 14 Functionalistic Hypotheses

Constructing 14 Functionalistic Hypotheses

1. (GS+) Upward mobility hypothesis: this hypothesis regards globalisation as a driving force to induce welfare state expansion. The logic is as follows. The higher trade openness, the more volatile market, because the openness means the exposure of domestic markets to external forces. In this respect, economic globalisation has been regarded as increasing economic insecurity and social dislocation. To mitigate the negative effects of globalisation and to cushion higher risks caused by globalisation, governments expand their intervention policies. The welfare state is there to deal with market dislocations by redistributing risks as well as the wealth within a nation. Empirically, Cameron (1978), Katzenstein (1985) and, more recently Rodrik (1998) found a positive correlation between the trade openness and the size of governments in terms of public expenditure. Furthermore, Rieger and Liebfried (1998, 2002) argue that historically the welfare state has accomplished a decisive role in determining the pace, timing and extent of globalisation and in managing the social and political effects of economic restructuring in a nation.

2. (GS-) Downward convergence (or social dumping) hypothesis: as the most well-known hypothesis, this stresses the unavailability of a comprehensive welfare state in the era of globalisation. Economic globalisation, especially the international mobility of capital, has weakened the capability of the macroeconomic management of nation states, injured the basic economic, political and social assumptions of Keynesian welfare state and strengthened the structural power of capital vis-à-vis the state and labour (Mishra, 1999; Scharpf, 2000; Strange, 1996). Coupled with the influence of IGOs, economic globalisation forces national governments to adopt similar neo-liberal policies; privatisation, deregulation and welfare residualisation to minimum level (or to the level of liberal American welfare state). In conclusion, globalisation is expected to lead a reduction of state welfare.

3. (PS+) Newly rising and diverse needs hypothesis: post-industrial pressures have raised new and diverse welfare needs (or risks) that require an expansion of public social services. According to Iversen (2000), de-industrialisation, caused by the rapid increase in manufacturing productivity, is the main force for social change after WW2. He argues, though his empirical analysis, that the current growth of welfare states has been induced not by the economic openness but by the reduction in manufacturing employment. The logic is as follows; the fall in manufacturing employment and the increase of service employment mean that more people face the uncertainties of the labour market, and in a democratic polity this induces more state intervention to reduce such uncertainties. The welfare state is expected to redistribute risks; it provides transfers and public services to those who face higher risks, but imposes net taxes to those who enjoy more secure positions (Iversen, 2000:55-6).

4. (PS-) Austerity hypothesis: this hypothesis argues that post-industrial pressures not only create new risks and demands to be dealt with by the state (family dissolution), but also lead to severe burdens on existing state programmes (population ageing). Especially, under the condition of overall low productivity that is caused by de-industrialisation and the rise of the service sector, these higher burdens ultimately lead to a critical fiscal constraint on the government. This 'unprecedented budgetary stress' of the welfare state, therefore, forces nation states to accomplish the politics of austerity to reform public welfare system (Pierson, 2000a, 2000b). Although the austerity agenda is not directly connected to the retrenchment, the processes of restructuring welfare states, at least partly, cannot avert a reduction of public social services through as cutting benefits, tightening eligibility and introducing waiting periods.

5. (GM+) Global marketisation hypothesis: this hypothesis is based on the recognition that globalisation has induced the permeation of market logic to health and welfare area. When globalisation is regarded not just as economic phenomenon but also as the diffusion of ideology, notably neo-liberalism, it has generated not only the marketisation itself, but also the notion that people should face a fiercer competition and behave more rationally. This is the context for the 'commodification of care' (Folbre, 1999: 74). In these circumstances, voluntary caring as well as state's services shrink and the welfare market substitutes the reduced share. In this respect, Standing (1999:92)

points out that in the process of globalisation the share of private benefits (market provisions) has increased in the total social income structure (Standing, 1999: 92). In reality, not only have the entry of private providers and commercial business in health and welfare services has been facilitated around the world, but there also exists a significant international welfare market in health, education, private insurance and pensions (Deacon, 2000a; Midgley, 1997; WTO, 1998a, 1998b; all recited from Yeates, 2000:43-44).

6. (PM+) Expansion of service market hypothesis: this hypothesis stresses the importance of post-industrial pressures – on both the supply and demand sides – to the expansion of the service market. De-industrialisation and rise of service sector employment induce the expansion of the personal service market on the supply side. Other post-industrial pressures – population ageing and transformation of household structure including higher women’s participation, dissolution of family – cause a rising service demand. If neither public services nor private markets are well established, the result of higher women’s participation would be a low fertility (Esping-Andersen, 1999). On the contrary, those countries where women’s participation is supported by either public services (Sweden) or private service markets (US) have recorded relatively high performance in both the participation and the fertility rate (refer to Table 3.9 and 3.10).

7. (GE+) Non-labour cost competitiveness hypothesis: this hypothesis is based on the recognition that the source of competitiveness is more than one or, in other words, there exists another kind of competitiveness beyond cost-competitiveness. Enterprises are required to be as competitive as possible to survive in fiercer global competition. It is easy for enterprises to depend on cost-competitiveness, but Porter (1986, 1990) points out that what really matters is not the problem of cost but ‘productivity’. If competitiveness is based on a higher productivity, the productivity can be achieved not only through differentiation and advanced technology (Porter, *Ibid*), but also through better human capital and other institutional bases like stable industrial relations (Gough, 2000). In this respect, enterprise welfare can play a role of improving productivity though attracting workers’ loyalty, maintaining industrial peace, improving workers’ human capital and protecting core staff from outflow. In conclusion, globalisation does

not necessarily induce enterprise welfare cuts and, rather, it would require to guarantee main workers (core staff) better enterprise benefits.

8. (GE-) Labour cost competitiveness hypothesis: basically globalisation forces enterprise to reduce the size of rigid organisations and to raise flexibility. Pressures of the global economy like uncertainty, volatility and competition push enterprises to reduce all kinds of costs including enterprise welfare benefits, in order to survive. In these circumstances, the overall level of enterprise welfare decreases due to the following factors; the first is reducing the benefit level and/or benefit cut, the other is decreasing the number of workers entitled to enterprise welfare through raising organisational flexibility, e.g., subcontracting and outsourcing (Standing, 1999: chap.4).

9. (PE-) Inferior service employment hypothesis: this hypothesis depends on the fact that manufacturing workers receive more enterprise welfare benefits than those of workers in the service sector. Whilst de-industrialisation and the decline of industry employment have reduced the number of workers receiving relatively abundant enterprise benefits, the increase in service employment means more and more workers are facing inferior working conditions including poor enterprise welfare. This is partly due to the low productivity of service sector on the one hand (Pierson, 2000a), and also due to weak bargaining power of service workers. In conclusion, post-industrial pressures cause a reduction in the overall level of enterprise welfare and its share in the welfare mix.

10. (GN+) Resistance and compromise hypothesis: as globalisation permeates into people's lives, there has been a rise in anti-globalisation social movements around the world. Most of these movements are organised and dominated by national and international NGOs. Global coordination and cooperation among (I)NGOs has been reinforced by the anti-globalisation movement and, therefore, the 'voice' of global civil society has been consolidated. Mainly in delivering welfare provision or aid, large INGOs like Oxfam have participated in IGOs' developmental projects and IGOs also use national and local NGOs to construct favourable conditions for SAPs; in these cases NGOs compromise with globalisation forces (Yeates, 2000:chap.5).

11. (PN+) Expansion of civil society hypothesis: this hypothesis regards post-industrialisation as a driving force for civil society development. As post-industrial pressures have not only generated newly rising needs and but also disclosed the seriousness of social issues like gender and caring, the roles of NGOs have expanded in terms of both service provision and voice (Pestoff, 1998; Salamon and Anheier, 1999). The rise of the service sector reflects not only the expansion of the commercial service market but also the increase of NGOs' employment in the health, education and non-profit social service areas (Salamon and Anheier, *Ibid*). These trends widen the scope of civil society in general.

12. (GF+) Increasing burden hypothesis: this hypothesis points out the uncertainties and insecurity people face in the competitive global economy. If globalisation forces even individuals to be as competitive as possible and induces an expansion of market logic, these trends make people depend on the family emotionally as well as economically when they face difficulties (UNDP 1999:79). This trend is supported by Standing's argument that globalisation causes changes in the social income structure¹; it has increased the share of community benefits (including family provision) of social income (Standing, 1999:chap.4). After all, globalisation imposes an increasing burden on the family as more and more individuals fall behind the market competition.

13. (GF-) Dual burden hypothesis: this hypothesis focuses on the gender side of caring. Most unpaid domestic work including caring have been regarded as part of the role of women, but globalisation influences women to behave rationally. The market's penetration into people's daily life forced by globalisation encourages women's economic participation on the one hand, but, on the other hand, has damaged the non-remunerative mechanism of care – such values as affection, altruism and social obligation (UNDP, 1999:78-9; Kutner, 1996:62). These trends are expected to shrink women's time providing care, so reduced provision by the family. However, the increased paid work of women has not been connected to a reduction in unpaid

¹ According to Standing (1999:88), social income (SI) consists of five parts: W (money wage), SB (state benefit), EB (enterprise benefits), CB (family and community) and PB (private benefits from market): [SI=W+SB+EB+CB+PB]. Globalisation has caused the change of SI structure; while W, SB and EB parts decline, the share of CB and PB (plus EB for some workers) parts rise up.

domestic work in most countries (UNDP, 1999:79-80). Therefore, globalisation reduces the capacity of family provision and, at the same time, causes women's dual burden that could ultimately result in either the overexploitation of women's labour forces or underproduction (low fertility).

14. (PF-) Less capacity of family hypothesis: this hypothesis stresses that post-industrial pressures have injured the basic foundations of family and, therefore, have weakened family's capacity to provide benefits and caring (Pierson, 2000a). The main source of family provision is women's unpaid domestic work including caring, but their higher participation in paid employment reduces the availability of family provisions. Moreover, higher divorce rate and related family dissolution have caused a dramatic rise in untypical forms of family, notably single-parent families. In this case, household members usually suffer from a reduced level of caring as well as economic difficulties as single parents alone are forced to manage both paid and unpaid domestic work. Furthermore, the fast growing number of single-person households have reduced the overall capacity of family provision in society because no one is available within the household when the single person needs care, this especially the case with old people living alone.

Appendix 3. Detailed Tables for External Forces and Internal Pressures in Korea

Appendix Table 3-1. Trade in Goods

(Billion US Dollars, per cent of GDP)

	Trade in Goods		Import		Export	
	Bn USD	% GDP	Bn USD	% GDP	Bn USD	% GDP
1980	39.8	64.0	22.3	35.8	17.5	28.1
1985	61.4	65.8	31.1	33.3	30.3	32.4
1987	88.3	65.3	41.0	30.3	47.3	35.0
1990	134.9	53.4	69.8	27.7	65.0	25.7
1991	153.4	52.0	81.5	27.6	71.9	24.4
1992	158.4	50.3	81.8	26.0	76.6	24.4
1993	166.0	48.0	83.8	24.2	82.2	23.8
1994	198.4	49.3	102.3	25.4	96.0	23.9
1995	260.2	53.2	135.1	27.6	125.1	25.6
1996	280.1	53.9	150.3	28.9	129.7	24.9
1997	280.8	58.9	144.6	30.3	136.2	28.6
1998	225.6	71.0	93.3	29.4	132.3	41.6
1999	263.4	64.9	119.8	29.5	143.7	35.4
2000	332.7	72.1	160.5	34.8	172.3	37.3
2001	291.5	69.1	141.1	33.4	150.4	35.6

Source: Bank of Korea, *National Accounts*, various years

Appendix Table 3-2. Foreign Direct Investment

	FDI Inflow, net			
	Bn USD	% of GDP	% of GCF ¹	% of GI ²
1980	0.01	0.0	0.0	0.0
1985	0.23	0.3	0.9	0.9
1987	0.62	0.5	1.6	1.2
1990	0.79	0.3	0.8	0.8
1991	1.18	0.4	1.0	1.1
1992	0.73	0.2	0.6	0.6
1993	0.59	0.2	0.5	0.5
1994	0.81	0.2	0.6	0.6
1995	1.78	0.4	1.0	1.0
1996	2.33	0.4	1.2	1.3
1997	2.84	0.6	1.7	1.8
1998	5.41	1.7	5.7	5.0
1999	9.33	2.3	8.3	7.0
2000	9.28	2.0	7.1	6.5
2001	3.53	0.8	3.1	2.9

1. Gross Capital Formation

2. Gross Investment

Source: Bank of Korea, *National Accounts*, various years

Appendix Table 3-3. Major Indicators of Financial Market Openness

(Billion US Dollars, per cent of GDP)

	Gross Private Capital Flows ¹		Gross FDI ²		Investment Inflow to Korean Stock Market ³	
	Bn USD	% of GDP	Bn USD	% of GDP	Bn USD	% of GDP
1980	5.7	9.1	0.0	0.1	5.7	9.1
1985	6.4	6.9	0.8	0.9	6.4	6.9
1987	9.1	6.7	1.1	0.8	9.1	6.7
1990	14.1	5.6	1.8	0.7	14.1	5.6
1991	16.2	5.5	2.7	0.9	16.2	5.5
1992	20.5	6.5	1.9	0.6	20.5	6.5
1993	23.2	6.7	1.9	0.6	23.2	6.7
1994	33.8	8.4	3.3	0.8	33.8	8.4
1995	55.3	11.3	5.3	1.1	55.3	11.3
1996	69.2	13.3	7.0	1.3	69.2	13.3
1997	68.2	14.3	7.3	1.5	68.2	14.3
1998	85.1	26.8	10.2	3.9	85.1	26.8
1999	66.6	16.4	13.5	3.8	66.6	16.4
2000	52.6	11.4	14.3	3.2	52.6	11.4
2001	48.1	11.4	5.9	1.4	48.1	11.4

1. The sum of the absolute values of direct, portfolio, and other investment inflows and outflows recorded in the balance of payments financial accounts, excluding changes in the assets and liabilities of monetary authorities and general government.

2. The sum of the absolute values of inflows and outflows of foreign direct investment recorded in the balance of payments financial accounts, including equity capital, reinvestment of earnings, other long-term capital, and short-term capital.

Source: World Bank, *WDI 2003 online*; Bank of Korea, *National Accounts*, various years

Appendix Table 3-4. Employment Structure by Industry

	Total Employment (Thousand)	Agriculture Employment (% of total)	Industry Employment ¹ (% of total)	Manufacturing (% of total)	Service Employment (% of total)
1980	13,683	34.0	29.0	21.6	37.0
1985	14,970	24.9	30.8	23.4	44.3
1987	16,354	21.9	34.0	27.0	44.1
1990	18,085	17.9	35.4	27.2	46.7
1991	18,649	16.4	36.0	27.6	47.7
1992	19,009	15.8	35.0	26.2	49.3
1993	19,234	14.7	33.5	24.5	51.7
1994	19,848	13.7	33.2	24.0	53.1
1995	20,414	12.4	33.3	23.6	54.3
1996	20,853	11.7	32.5	22.7	55.9
1997	21,214	11.3	31.2	21.4	57.5
1998	19,938	12.4	27.8	19.6	59.8
1999	20,291	11.6	27.4	19.8	61.0
2000	21,156	10.9	28.0	20.3	61.1
2001	21,572	10.0	27.5	19.8	62.6
2002	22,170	9.3	27.3	19.1	63.3

1. The proportion of total employment recorded as working in the industrial sector, including mining and quarrying, manufacturing, electricity, gas and water, and construction, corresponding to major divisions 2-5 (ISIC revision 2) or tabulation categories C-F (ISIC revision 3).

Source: Ministry of Labour, *Statistical Yearbook of Labour*, various years

Appendix Table 3-5. Employment Structure by Employment Type

(Thousand, per cent of Total Employment, per cent of Paid Employment)

	Total (thousand)	Self- employed (% of total)	Family workers (% of total)	(% of total)	Paid Employment		
					Regular (% of Paid Employment)	Temporary	Daily
1980	13,683	34.0	18.8	47.2	79.9		20.1
1985	14,970	31.3	14.6	54.1	82.8		17.2
1987	16,354	30.5	13.3	56.2	83.4		16.6
1990	18,085	28.0	11.4	60.5	54.2	29.0	16.8
1991	18,649	26.7	10.6	62.7	55.5	28.7	15.7
1992	19,009	27.2	10.1	62.7	57.4	27.7	14.9
1993	19,234	27.3	10.6	62.1	58.9	26.7	14.4
1994	19,848	27.1	10.0	62.9	57.9	27.8	14.3
1995	20,414	27.3	9.5	63.2	58.1	27.9	14.0
1996	20,853	27.4	9.3	63.3	56.8	29.6	13.6
1997	21,214	27.8	9.0	63.2	54.3	31.6	14.1
1998	19,938	28.2	10.2	61.7	53.1	32.9	14.0
1999	20,291	28.1	9.5	62.4	48.4	33.6	18.0
2000	21,156	27.7	9.1	63.1	47.9	34.5	17.6
2001	21,572	28.1	8.6	63.3	49.2	34.6	16.2
2002	22,170	27.9	8.1	64.0	48.4	34.5	17.2

Source: Korea Labour Institute, *KLI Labour Statistics*, various years**Appendix Table 3-6. Prospect for Elderly Dependency Ratio (Aged 65 and over):
International Comparison**

	Canada	France	Germany	Italy	Japan	UK	US	G7	Korea
1980	13.8	21.9	23.7	20.3	13.4	23.6	16.9	19.1	6.1
1990	16.6	21.3	21.7	22.2	17.2	24.5	18.5	20.3	7.4
2000	18.4	24.5	23.9	26.8	25.2	24.4	18.7	23.1	10.1
2010	20.6	25.3	30.5	31.1	35.0	24.5	19.2	26.6	14.8
2020	28.1	32.5	34.2	36.7	47.2	28.4	24.8	33.1	21.3
2030	38.7	39.3	44.3	47.0	52.6	33.8	31.2	41.0	35.8
2040	42.3	44.7	50.4	62.6	64.9	37.8	32.1	47.8	51.6

Sources: NSO, <http://www.nso.go.kr>; UN, World Population Prospects, <http://esa.un.org/unpp>.

Appendix 4. Detailed Tables for the Expenditure Structure of the Welfare Mix

Appendix Table 4-1. Total Expenditure on Social Protection and Health: 5 Sectors

A. Amount (Billion Won)						
	State	Market	Enterprise	Third Sec	Family	Total
1990	5,651	5,123	5,312	140	6,536	22,762
1991	6,415	6,225	7,288	169	8,474	28,571
1992	7,979	7,352	9,570	196	9,201	34,298
1993	9,248	8,378	10,512	222	9,299	37,659
1994	10,943	9,397	12,823	271	11,374	44,808
1995	13,846	10,704	13,864	320	12,387	51,121
1996	16,331	12,313	16,057	359	13,036	58,096
1997	19,388	12,995	20,119	402	15,905	68,809
1998	26,513	12,171	29,794	441	13,650	82,569
1999	33,372	14,456	23,347	465	16,206	87,846
2000	29,287	16,026	28,855	494	15,089	89,751
2001	33,774	16,812	25,605	553	15,090	91,834
B. % of GDP						
	State	Market	Enterprise	Third Sec	Family	Total
1990	3.2	2.9	3.0	0.1	3.7	12.7
1991	3.0	2.9	3.4	0.1	3.9	13.2
1992	3.2	3.0	3.9	0.1	3.7	14.0
1993	3.3	3.0	3.8	0.1	3.4	13.6
1994	3.4	2.9	4.0	0.1	3.5	13.9
1995	3.7	2.8	3.7	0.1	3.3	13.5
1996	3.9	2.9	3.8	0.1	3.1	13.9
1997	4.3	2.9	4.4	0.1	3.5	15.2
1998	6.0	2.7	6.7	0.1	3.1	18.6
1999	6.9	3.0	4.8	0.1	3.4	18.2
2000	5.6	3.1	5.5	0.1	2.9	17.2
2001	6.1	3.0	4.6	0.1	2.7	16.6
C. % of Total						
	State	Market	Enterprise	Third Sec	Family	Total
1990	24.8	22.5	23.3	0.6	28.7	100.0
1991	22.5	21.8	25.5	0.6	29.7	100.0
1992	23.3	21.4	27.9	0.6	26.8	100.0
1993	24.6	22.2	27.9	0.6	24.7	100.0
1994	24.4	21.0	28.6	0.6	25.4	100.0
1995	27.1	20.9	27.1	0.6	24.2	100.0
1996	28.1	21.2	27.6	0.6	22.4	100.0
1997	28.2	18.9	29.2	0.6	23.1	100.0
1998	32.1	14.7	36.1	0.5	16.5	100.0
1999	38.0	16.5	26.6	0.5	18.4	100.0
2000	32.6	17.9	32.2	0.6	16.8	100.0
2001	36.8	18.3	27.9	0.6	16.4	100.0

Sources: see Table 5.8

Appendix Table 4-2. Total Expenditure on Social Protection: 5 Sectors

A. Amount (Billion Won)						
	State	Market	Enterprise	Third Sec	Family	Total
1990	2,524	185	4,877	99	6,536	14,221
1991	3,181	232	6,859	116	8,474	18,862
1992	4,073	297	8,951	138	9,201	22,660
1993	4,851	388	9,801	161	9,299	24,500
1994	5,882	531	11,706	197	11,374	29,690
1995	7,418	681	12,783	232	12,387	33,501
1996	8,287	847	14,951	262	13,036	37,383
1997	10,057	992	18,816	291	15,905	46,061
1998	15,947	1,074	28,711	325	13,650	59,707
1999	21,748	1,252	21,827	346	16,206	61,379
2000	15,671	1,397	27,243	371	15,089	59,771
2001	15,900	1,402	23,761	417	15,090	56,570
B. % of GDP						
	State	Market	Enterprise	Third Sec	Family	Total
1990	1.4	0.1	2.7	0.1	3.7	8.0
1991	1.5	0.1	3.2	0.1	3.9	8.7
1992	1.7	0.1	3.6	0.1	3.7	9.2
1993	1.7	0.1	3.5	0.1	3.4	8.8
1994	1.8	0.2	3.6	0.1	3.5	9.2
1995	2.0	0.2	3.4	0.1	3.3	8.9
1996	2.0	0.2	3.6	0.1	3.1	8.9
1997	2.2	0.2	4.2	0.1	3.5	10.2
1998	3.6	0.2	6.5	0.1	3.1	13.4
1999	4.5	0.3	4.5	0.1	3.4	12.7
2000	3.0	0.3	5.2	0.1	2.9	11.5
2001	2.9	0.3	4.3	0.1	2.7	10.3
C. % of Total						
	State	Market	Enterprise	Third Sec	Family	Total
1990	17.7	1.3	34.3	0.7	46.0	100.0
1991	16.9	1.2	36.4	0.6	44.9	100.0
1992	18.0	1.3	39.5	0.6	40.6	100.0
1993	19.8	1.6	40.0	0.7	38.0	100.0
1994	19.8	1.8	39.4	0.7	38.3	100.0
1995	22.1	2.0	38.2	0.7	37.0	100.0
1996	22.2	2.3	40.0	0.7	34.9	100.0
1997	21.8	2.2	40.9	0.6	34.5	100.0
1998	26.7	1.8	48.1	0.5	22.9	100.0
1999	35.4	2.0	35.6	0.6	26.4	100.0
2000	26.2	2.3	45.6	0.6	25.2	100.0
2001	28.1	2.5	42.0	0.7	26.7	100.0

Sources: see Table 5.8

Appendix Table 4-3. Total Expenditure on Health: 5 Sectors

A. Amount (Billion Won)					
	State	Market	Enterprise	Third Sec	Total
1990	3,127	4,938	435	41	8,541
1991	3,234	5,993	429	52	9,708
1992	3,906	7,055	619	57	11,637
1993	4,397	7,990	711	62	13,160
1994	5,061	8,866	1,117	74	15,118
1995	6,428	10,023	1,080	88	17,619
1996	8,044	11,466	1,105	97	20,712
1997	9,331	12,003	1,303	110	22,747
1998	10,566	11,097	1,083	116	22,862
1999	11,624	13,204	1,521	120	26,469
2000	13,616	14,629	1,612	123	29,980
2001	17,874	15,410	1,843	136	35,263
B. % of GDP					
	State	Market	Enterprise	Third Sec	Total
1990	1.7	2.8	0.2	0.0	4.8
1991	1.5	2.8	0.2	0.0	4.5
1992	1.6	2.9	0.3	0.0	4.7
1993	1.6	2.9	0.3	0.0	4.7
1994	1.6	2.7	0.3	0.0	4.7
1995	1.7	2.7	0.3	0.0	4.7
1996	1.9	2.7	0.3	0.0	4.9
1997	2.1	2.6	0.3	0.0	5.0
1998	2.4	2.5	0.2	0.0	5.1
1999	2.4	2.7	0.3	0.0	5.5
2000	2.6	2.8	0.3	0.0	5.7
2001	3.2	2.8	0.3	0.0	6.4
C. % of Total					
	State	Market	Enterprise	Third Sec	Total
1990	36.6	57.8	5.1	0.5	100.0
1991	33.3	61.7	4.4	0.5	100.0
1992	33.6	60.6	5.3	0.5	100.0
1993	33.4	60.7	5.4	0.5	100.0
1994	33.5	58.6	7.4	0.5	100.0
1995	36.5	56.9	6.1	0.5	100.0
1996	38.8	55.4	5.3	0.5	100.0
1997	41.0	52.8	5.7	0.5	100.0
1998	46.2	48.5	4.7	0.5	100.0
1999	43.9	49.9	5.7	0.5	100.0
2000	45.4	48.8	5.4	0.4	100.0
2001	50.7	43.7	5.2	0.4	100.0

Sources: see Table 5.8

Appendix Table 4-4. Trend of Welfare Mix Expenditure: Public/Private Dichotomy

A. Social Protection and Health						
	Amount (Billion Won)		% of GDP		% of Total	
	Public	Private	Public	Private	Public	Private
1990	7,591	15,171	4.2	8.5	33.3	66.7
1991	8,702	19,869	4.0	9.2	30.5	69.5
1992	10,235	24,064	4.2	9.8	29.8	70.2
1993	12,440	25,220	4.5	9.1	33.0	67.0
1994	15,148	29,660	4.7	9.2	33.8	66.2
1995	19,003	32,117	5.0	8.5	37.2	62.8
1996	22,073	36,023	5.3	8.6	38.0	62.0
1997	29,174	39,636	6.4	8.7	42.4	57.6
1998	48,135	34,434	10.8	7.7	58.3	41.7
1999	47,008	40,839	9.7	8.5	53.5	46.5
2000	47,376	42,375	9.1	8.1	52.8	47.2
2001	47,647	44,186	8.6	8.0	51.9	48.1
B. Social Protection						
	Amount (Billion Won)		% of GDP		% of Total	
	Public	Private	Public	Private	Public	Private
1990	4,464	9,757	2.5	5.5	34.6	65.4
1991	5,468	13,394	2.5	6.2	31.4	68.6
1992	6,329	16,332	2.6	6.6	29.5	70.5
1993	8,043	16,457	2.9	5.9	34.7	65.3
1994	10,087	19,604	3.1	6.1	35.5	64.5
1995	12,575	20,926	3.3	5.5	39.0	61.0
1996	14,029	23,354	3.4	5.6	38.8	61.2
1997	19,843	26,219	4.4	5.8	43.7	56.3
1998	37,569	22,138	8.5	5.0	63.3	36.7
1999	35,384	25,995	7.3	5.4	57.8	42.2
2000	33,760	26,011	6.5	5.0	56.5	43.5
2001	29,773	26,797	5.4	4.9	52.4	47.6
C. Health						
	Amount (Billion Won)		% of GDP		% of Total	
	Public	Private	Public	Private	Public	Private
1990	3,127	5,414	1.7	3.0	36.6	63.4
1991	3,234	6,474	1.5	3.0	33.3	66.7
1992	3,906	7,731	1.6	3.1	33.6	66.4
1993	4,397	8,763	1.6	3.2	33.4	66.6
1994	5,061	10,057	1.6	3.1	33.5	66.5
1995	6,428	11,191	1.7	3.0	36.5	63.5
1996	8,044	12,668	1.9	3.0	38.8	61.2
1997	9,331	13,416	2.1	3.0	41.0	59.0
1998	10,566	12,296	2.4	2.8	46.2	53.8
1999	11,624	14,845	2.4	3.1	43.9	56.1
2000	13,616	16,364	2.6	3.1	45.4	54.6
2001	17,874	17,389	3.2	3.2	50.7	49.3

Sources: see Table 5.8

**Appendix Table 4-5. Trend of Welfare Mix Expenditures:
State-Market-Community Trichotomy**

A. Social Protection and Health						
	% of GDP				% of Total	
	State	Market	Community	State	Market	Community
1990	3.2	5.8	3.7	24.8	45.8	29.3
1991	3.0	6.2	4.0	22.5	47.3	30.3
1992	3.2	6.9	3.8	23.3	49.3	27.4
1993	3.3	6.8	3.4	24.6	50.2	25.3
1994	3.4	6.9	3.6	24.4	49.6	26.0
1995	3.7	6.5	3.4	27.1	48.1	24.9
1996	3.9	6.8	3.2	28.1	48.8	23.1
1997	4.3	7.3	3.6	28.2	48.1	23.7
1998	6.0	9.4	3.2	32.1	50.8	17.1
1999	6.9	7.8	3.5	38.0	43.0	19.0
2000	5.6	8.6	3.0	32.6	50.0	17.4
2001	6.1	7.7	2.8	36.8	46.2	17.0
B. Social Protection						
	% of GDP				% of Total	
	State	Market	Community	State	Market	Community
1990	1.4	2.8	3.7	17.7	35.6	46.7
1991	1.5	3.3	4.0	16.9	37.6	45.5
1992	1.7	3.8	3.8	18.0	40.8	41.2
1993	1.7	3.7	3.4	19.8	41.6	38.6
1994	1.8	3.8	3.6	19.8	41.2	39.0
1995	2.0	3.6	3.3	22.1	40.2	37.7
1996	2.0	3.8	3.2	22.2	42.3	35.6
1997	2.2	4.4	3.6	21.8	43.0	35.2
1998	3.6	6.7	3.1	26.7	49.9	23.4
1999	4.5	4.8	3.4	35.4	37.6	27.0
2000	3.0	5.5	3.0	26.2	47.9	25.9
2001	2.9	4.6	2.8	28.1	44.5	27.4
C. Health						
	% of GDP				% of Total	
	State	Market	Community	State	Market	Community
1990	1.7	3.0	0.0	36.6	62.9	0.5
1991	1.5	3.0	0.0	33.3	66.2	0.5
1992	1.6	3.1	0.0	33.6	65.9	0.5
1993	1.6	3.1	0.0	33.4	66.1	0.5
1994	1.6	3.1	0.0	33.5	66.0	0.5
1995	1.7	2.9	0.0	36.5	63.0	0.5
1996	1.9	3.0	0.0	38.8	60.7	0.5
1997	2.1	2.9	0.0	41.0	58.5	0.5
1998	2.4	2.7	0.0	46.2	53.3	0.5
1999	2.4	3.1	0.0	43.9	55.6	0.5
2000	2.6	3.1	0.0	45.4	54.2	0.4
2001	3.2	3.1	0.0	50.7	48.9	0.4

Sources: see Table 5.8

Appendix 5. Welfare Mix Expenditure Structures Including Education

Appendix Table 5-1. Total Expenditures on Education

A. Amount (Billion Won)				
	State	Market	Third Sector	Total
1990	5,062	4,087	791	9,940
1991	6,598	4,761	926	12,285
1992	8,206	5,640	1,116	14,962
1993	9,831	6,546	1,305	17,682
1994	10,879	7,594	1,532	20,005
1995	12,496	9,196	1,899	23,591
1996	15,565	10,785	2,208	28,558
1997	18,288	11,995	2,454	32,737
1998	18,128	12,100	2,537	32,765
1999	17,456	12,884	2,737	33,077
2000	19,172	13,960	2,955	36,087
2001	20,034	15,425	3,173	38,632
B. % of GDP				
	State	Market	Third Sector	Total
1990	2.8	2.3	0.4	5.6
1991	3.0	2.2	0.4	5.7
1992	3.3	2.3	0.5	6.1
1993	3.5	2.4	0.5	6.4
1994	3.4	2.3	0.5	6.2
1995	3.3	2.4	0.5	6.3
1996	3.7	2.6	0.5	6.8
1997	4.0	2.6	0.5	7.2
1998	4.1	2.7	0.6	7.4
1999	3.6	2.7	0.6	6.9
2000	3.7	2.7	0.6	6.9
2001	3.6	2.8	0.6	7.0
C. % of Total				
	State	Market	Third Sector	Total
1990	50.9	41.1	8.0	100.0
1991	53.7	38.8	7.5	100.0
1992	54.8	37.7	7.5	100.0
1993	55.6	37.0	7.4	100.0
1994	54.4	38.0	7.7	100.0
1995	53.0	39.0	8.0	100.0
1996	54.5	37.8	7.7	100.0
1997	55.9	36.6	7.5	100.0
1998	55.3	36.9	7.7	100.0
1999	52.8	39.0	8.3	100.0
2000	53.1	38.7	8.2	100.0
2001	51.9	39.9	8.2	100.0

Sources: see Table 5.8; Ministry of Education, *Statistical Yearbook of Education*, various years

Appendix Table 5-2. Total Welfare Mix Expenditure Including Education

A. Amount (Billion Won)						
	State	Market	Enterprise	Third Sec	Family	Total
1990	10,713	9,025	5,312	931	6,536	32,517
1991	13,013	10,754	7,288	1,094	8,474	40,623
1992	16,185	12,695	9,570	1,312	9,201	48,963
1993	19,079	14,537	10,512	1,527	9,299	54,954
1994	21,822	16,460	12,823	1,803	11,374	64,282
1995	26,342	19,219	13,864	2,219	12,387	74,031
1996	31,896	22,251	16,057	2,566	13,036	85,806
1997	37,676	23,999	20,119	2,856	15,905	100,555
1998	44,641	23,197	29,794	2,978	13,650	114,260
1999	50,828	26,088	23,347	3,203	16,206	119,672
2000	48,459	28,589	28,855	3,449	15,089	124,441
2001	53,808	30,835	25,605	3,726	15,090	129,064
B. % of GDP						
	State	Market	Enterprise	Third Sec	Family	Total
1990	6.0	5.0	3.0	0.5	3.7	18.2
1991	6.0	5.0	3.4	0.5	3.9	18.8
1992	6.6	5.2	3.9	0.5	3.7	19.9
1993	6.9	5.2	3.8	0.6	3.4	19.8
1994	6.7	5.1	4.0	0.6	3.5	19.9
1995	7.0	5.1	3.7	0.6	3.3	19.6
1996	7.6	5.3	3.8	0.6	3.1	20.5
1997	8.3	5.3	4.4	0.6	3.5	22.2
1998	10.0	5.2	6.7	0.7	3.1	25.7
1999	10.5	5.4	4.8	0.7	3.4	24.8
2000	9.3	5.5	5.5	0.7	2.9	23.8
2001	9.8	5.6	4.6	0.7	2.7	23.4
C. % of Total						
	State	Market	Enterprise	Third Sec	Family	Total
1990	32.9	27.8	16.3	2.9	20.1	100.0
1991	32.0	26.5	17.9	2.7	20.9	100.0
1992	33.1	25.9	19.5	2.7	18.8	100.0
1993	34.7	26.5	19.1	2.8	16.9	100.0
1994	33.9	25.6	19.9	2.8	17.7	100.0
1995	35.6	26.0	18.7	3.0	16.7	100.0
1996	37.2	25.9	18.7	3.0	15.2	100.0
1997	37.5	23.9	20.0	2.8	15.8	100.0
1998	39.1	20.3	26.1	2.6	11.9	100.0
1999	42.5	21.8	19.5	2.7	13.5	100.0
2000	38.9	23.0	23.2	2.8	12.1	100.0
2001	41.7	23.9	19.8	2.9	11.7	100.0

Sources: see Table 5.8; Ministry of Education, *Statistical Yearbook of Education*, various years

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